National Bank of Poland

Monetary Policy Council

Report on monetary policy implementation in 2009

Warsaw, May 2010

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Presenting the *Report on monetary policy implementation*, the Monetary Policy Council acts in accordance with Article 227 of the Constitution of the Republic of Poland, which imposes an obligation on the Council to present a report on the implementation of monetary policy guidelines within 5 months following the end of the fiscal year. In accordance with Article 53 of the Act on the National Bank of Poland, the *Report on monetary policy implementation* is published in the Official Gazette of the Republic of Poland, the *Monitor Polski*.

The *Report* presents the main elements of the conducted monetary policy strategy, a description of macroeconomic conditions and decisions taken with respect to the monetary policy in the reported year, as well as a description of the implemented monetary policy instruments. Moreover, the *Report* is accompanied by Appendices presenting the development of important macroeconomic variables, as well as by *Minutes of the Monetary Policy Council decision-making meetings* and the voting records of the Council's members on motions and resolutions.

As emphasised in Chapter 1 of the *Report*, the decisions of monetary authorities affect the economy with considerable lags, with the strongest impact being observed after several quarters. Moreover, the economy is subject to macroeconomic shocks, which, while remaining in the majority of cases outside the control of the domestic monetary policy, may to a large extent affect the economic situation and domestic inflationary processes in the short, and sometimes also medium, term.

An ex post assessment of the conduct of monetary policy, should take into account the above considerations.

This *Report on monetary policy implementation in 2009* is a translation of the National Bank of Poland's *Sprawozdanie z wykonania założeń polityki pieniężnej na rok 2009* in Polish. In case of discrepancies, the original prevails.

Chapter 1.

Monetary policy strategy

According to Article 227 para. 1 of the Constitution of the Republic of Poland "the National Bank of Poland shall be responsible for the value of Polish currency." The Act on the National Bank of Poland of 29 August 1997 states in Art. 3 that "the basic objective of NBP activity shall be to maintain price stability, and it shall at the same time act in support of Government economic policies, insofar as this does not constrain pursuit of the basic objective of the NBP".

Contemporary central banks understand price stability as inflation low enough so as not to exert negative influence on investment, savings and other important decisions taken by economic agents. Ensuring thus understood price stability is a fundamental way in which the central bank contributes, by means of its decisions, to high and sustainable economic growth. Central banks view price stability symmetrically, which means that they respond both to inflationary and deflationary threats.

The Monetary Policy Council, henceforth the "MPC" or the "Council", bases its monetary policy on the inflation targeting strategy. International experience shows that this strategy is an effective method of ensuring price stability. Having brought inflation down to a low level, in 2004 the MPC adopted a permanent inflation target of 2.5% with a symmetrical tolerance range for deviations of ± 1 percentage point. The MPC pursues this strategy under a floating exchange rate regime. The floating exchange rate regime does not rule out foreign exchange interventions should they turn out necessary for the inflation target implementation.

In the *Monetary Policy Guidelines for 2009* the Council maintained the following understanding of the inflation target and the way of its implementation:

- First, the notion of *permanent* inflation target means that it refers to inflation measured as a year-on-year change in prices of consumer goods and services in each month compared to the corresponding period of the preceding year. For a better understanding of inflation processes it is also justified to use quarterly and annual inflation indices such as those used in the NBP's inflation projection, in the central budget and in the statistics of the European Union. An important role in the assessment of inflationary pressure is also played by core inflation indices.
- Second, the adopted solution means that the monetary policy is unequivocally focused on maintaining inflation as close as possible to the target of 2.5% and not only within the tolerance range. The adopted solution provides an anchor for inflation expectations, thus facilitating the pursuit of monetary policy, which in case of shocks requires smaller and less frequent interest rate changes.
- Third, the occurrence of shocks in the economy is inevitable. Depending on the strength of the shock and the degree of inertia of inflation expectations the scale and the duration of inflation deviation from the adopted target that may differ. The central bank normally does not respond to deviations from the inflation target which it deems temporary and which lie within the tolerance range around the target. In countries with a permanently low inflation, the central bank does not have to respond even when inflation leaves the tolerance band temporarily. In the case of shocks viewed as leading to

a permanent deviation from the inflation target, the central bank adjusts its monetary policy accordingly.

- Fourth, monetary policy reaction to shocks also depends on their causes and nature. The reaction to demand shocks is a relatively minor issue, since in this case inflation and output move in the same direction. An interest rate increase weakens economic activity and, consequently, inflationary pressure. Supply shocks are a more difficult problem from the point of view of monetary policy, as in this case output and inflation move in opposite directions. Inappropriate monetary policy reaction to such a shock may have far-reaching negative consequences for the economy. An attempt to fully neutralise the impact of a supply shock on inflation through monetary policy may lead to an unnecessary plunge in output, as the supply shock itself already has a negative effect on consumption and investment. On the other hand, an attempt to fully accommodate – by pursuing expansionary monetary policy – the real effects of a supply shock resulting in a price increase and output decrease usually leads to persistently higher inflation, which, in turn, requires a far more restrictive monetary policy in subsequent periods, bringing about a stronger deceleration in economic growth. The reaction of the central bank should depend on the assessment of the durability of the shock's effects.
- Fifth, most supply shocks are transitory and limited in scale. Thus, they do not require an immediate reaction. However, in the case of strong shocks even temporary acceleration in price growth may bring about a relatively permanent rise in inflation expectations and, in turn, an increase in inflation due to the emergence of wage demands. In such a situation, monetary policy has to prevent secondary effects of the supply shock (the so-called second-round effects). The risk of such effects is substantial in countries with a short history of low inflation. Useful in analysing supply shocks are core inflation indices, which help to distinguish, at least roughly, temporary effects from permanent changes in inflationary pressure.
- Sixth, because the reaction of output and inflation to the pursued monetary policy is delayed, its influence on the level of current inflation is limited. Current decisions of the monetary authorities affect price developments in the future just as current inflation is influenced by interest rate changes made several quarters ago. However, the length of these lags is not constant and, to a large extent, depends on structural and institutional changes ongoing in the economy. Changes in the monetary transmission mechanism result in a situation in which central banks can only approximately determine the time lag between an interest rate decision and its strongest observed impact on real variables (output, employment) and then on inflation.
- Seventh, monetary policy affects the economy not only by changing interest rates but also by keeping them unchanged for a period of time. The decision to keep interest rates unchanged for several periods (months or quarters) has substantial consequences for the economy as well, because it leads to a gradual widening or narrowing of the output gap.
- Eighth, monetary policy is pursued under uncertainty. Large uncertainty is, among others, due to the fact that inflation projection models used by central banks may start to describe economic processes less adequately owing to the ongoing structural changes in the economy. This means that:
- (a) while making decisions it is necessary to take into account all available information, rather than just the inflation projection;
- (b) it is not possible to adopt a simple policy rule which could be known ex ante to market participants and
- (c) forward-looking monetary policy has to be presented to the public as an attempt to achieve the inflation target under uncertainty, rather than an exercise of strict control over economic processes.
- Ninth, while assessing the inflation outlook, especially when inflation is low, central banks take into account the prices of assets because of the need to ensure financial stability. In the conditions of liberalised financial markets and amid favourable developments on the supply side of the economy supporting low inflation, it is becoming ever more essential for monetary authorities to allow for financial stability considerations in their decisions. If in response to low inflation central banks reduce interest rates too much, this may lead to rapid asset price growth. This growth is accompanied by the risk of the so-called unstable boom, where higher inflation emerges with a considerable lag. Such rapid growth in asset prices is also accompanied with the rising risk of their sudden and considerable slump, which poses a threat to the stability of the financial system and to the real economy. Financial

system stability ensures effective operation of the transmission mechanism, which is crucial for appropriate monetary policy implementation. In assessing the inflation outlook and the risk of turmoil in the asset market, it may be useful in the longer run to account for the paths of monetary aggregates.

- Tenth, in assessing monetary conditions, not only the level of real interest rates should be considered but also the level of the real exchange rate. Thus understood restrictiveness of monetary policy impacts, along with the implemented fiscal policy, the total restrictiveness of macroeconomic policy. An overly expansionary fiscal policy is the most common reason that necessitates keeping the interest rates at a higher level.
- Eleventh, an important input into monetary policy decision-making process is the balance of factors affecting the probabilities of future inflation running above or below the target. This balance is based on the inflation projection, the assessment of the actual economic developments, which may deviate from the scenario presented in the projection, as well as the course of variables and information not accounted for directly in the projection. While assessing the factors affecting future inflation, central banks take into consideration the path of inflation in the past since it has a bearing on the anchoring of inflation expectations at the level of the inflation target. In this context it is important to consider the length of the period in which inflation remained close to the target and the length of the period in which it deviated from the target.

Furthermore, the Council has stated that if a binding decision were to be taken on the scheduled date of Poland joining the euro area and the related entry to ERM II, the Council would make all necessary adjustments of the monetary policy strategy and – in consultation with the Council of Ministers – of the exchange rate policy to conditions ensuing from the necessity of meeting the convergence criteria indispensable for the euro adoption. Such binding decision, however, was not taken. The Council maintained its opinion that the accession of Poland to the euro area should take place at the earliest possible date. The Council also expressed the view that in the coming years economic policy in Poland should be conducted in such a way as to enable – by implementing structural reforms – the sustainable fulfilment of the Maastricht criteria and, at the same time, the maximisation of benefits related to the euro area accession.

Chapter 2.

Monetary policy

2.1. Macroeconomic conditions of NBP monetary policy in 2009

In 2009 the monetary policy of central banks, including the National Bank of Poland, was pursued in the conditions of global economic recession and persisting disturbances in financial markets.

At the beginning of 2009 most countries saw a deepening of the recession originated back in 2008, which was reflected in a strong fall of GDP, marked deterioration in the labour market and worsening of economic agents' sentiment. At the same time, heightened uncertainty and high risk aversion continued to persist in international financial markets, which brought about a further decline in asset prices and disturbances in the functioning of those markets.

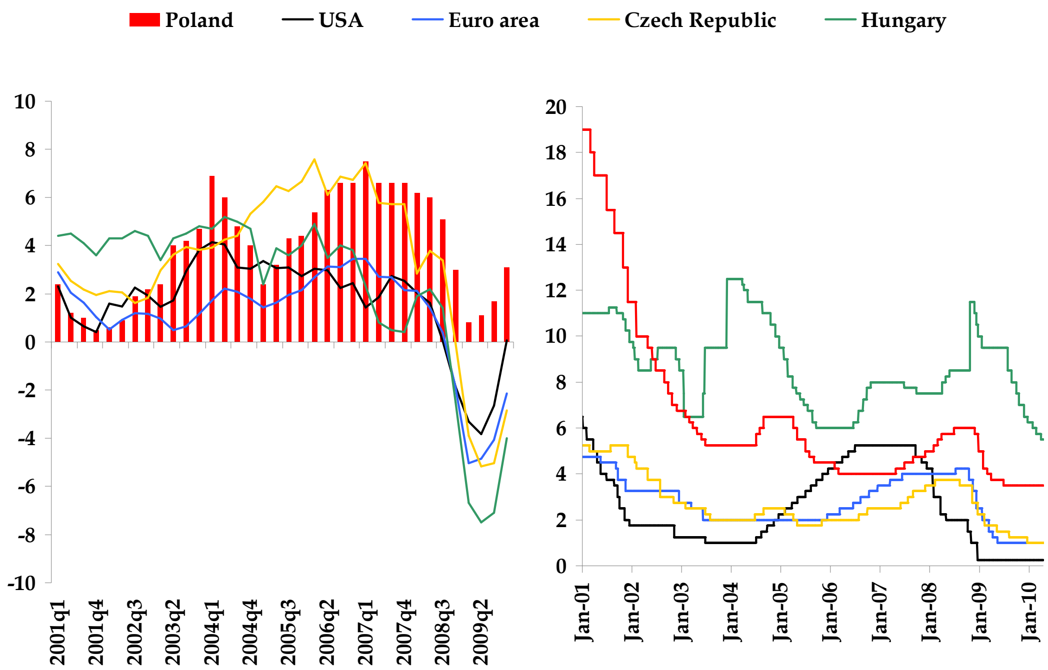
While in 2008 recession primarily hit developed countries, at the end of 2008 and the beginning of 2009 a considerable decline in economic activity also occurred in emerging economies, including Central and Eastern European countries, all of which – except for Poland – suffered GDP falls in 2009. The main channels through which the global crisis affected these economies included: a collapse in world trade[1] at the end of 2008 and at the beginning of 2009, growth in risk aversion in financial markets resulting in capital outflows from those countries and a strong depreciation of their currencies (which raised the value of foreign debt expressed in domestic currency and the costs of its servicing, though at the same time it improved the price competitiveness of those economies versus developed countries), a pronounced credit tightening by financial institutions and deterioration in economic agents' sentiment.

In 2009 Q2 recessionary tendencies in the global economy were gradually slowing down and in the following quarters global GDP started to rise again. Nevertheless, the scale of improvement in the economic situation of particular countries and regions varied. In the largest developed economies, despite some improvement in economic activity, a GDP slide was recorded in the whole of 2009.

Together with a gradual improvement in the real economy, starting from 2009 Q2 an on-going stabilisation in financial markets could be observed, which was reflected in the growth of prices of some financial assets and in the appreciation of emerging economies' currencies. The improvement in both economic activity and the situation in financial markets was to a large extent the result of a highly expansionary macroeconomic policy pursued in many countries. It involved a significant loosening of monetary policy (in particular interest rate cuts to historically low levels and liquidity support, including asset purchases by central banks leading to an increase of the monetary base) as well as a strong fiscal stimulus.

[1] According to IMF estimates, the volume of world trade exchange in 2009 shrank by 10.7%, which was primarily connected with a significant reduction of demand, uncertainty as to the economic standing of particular countries and the narrowing possibilities of using financial intermediation.

Figure 2.1
GDP growth (left-hand graph) and main interest rates of selected central banks (right-hand graph)



Source: Reuters EcoWin data.

Despite the signs of a gradual deceleration in unfavourable tendencies in many countries, uncertainty about the sustainability of economic recovery persisted in the whole of 2009. This uncertainty was largely associated with the unknown impact of the financial crisis on the growth rate of potential output, difficult to predict reaction of the economy to the withdrawal of stimulus programmes, as well as long-term effects of a severe deepening of the fiscal imbalance and the rising public debt.

In 2009 – along with the deepening recession in the global economy – a marked decline in inflation was observed in most countries. According to estimates of the International Monetary Fund, inflation in developed countries fell from 3.4% in 2008 to 0.1% in 2009 and in the developing countries – from 9.2% to 5.2%. A significant reduction in inflation – which brought annual price growth in the euro area, the United States and Japan temporarily below zero in mid-2009 – was primarily connected with a strong decline in the prices of agricultural and energy commodities, negative base effects and low demand pressure associated with limited economic activity. Together with the stabilisation of economic activity and the recovery in world trade, commodity prices rose, which was also supported by falling risk aversion and high liquidity in global financial markets. At the same time, a rise in inflation was observed, even though it remained at a low level. In many countries inflation remained at an elevated level throughout 2009, which largely resulted from the earlier depreciation of the exchange rate.

Changes occurring in 2009 in the global economy significantly affected the course of economic processes in Poland. Although Poland's economy exhibited relatively high resistance to the global crisis[2] – which was, among others, attributable to a smaller than in other economies of the region share of exports in GDP, a floating exchange rate and a lesser dependence on credit – economic activity declined considerably in 2009 (Appendix 1). The annual GDP growth fell from 5.0% in 2008 to 1.8% in 2009, and domestic demand decreased in 2009 by 0.9% y/y (against an increase of 5.5% y/y recorded in the preceding year).

[2] Poland was the only country of the European Union which recorded GDP growth in 2009.

The recession in the major trade partners contributed to the reduction in foreign demand for goods and services produced in Poland. At the same time, a significant depreciation of the zloty exchange rate – caused by increased risk aversion in global financial markets in 2008 Q4 and early 2009 and the ensuing foreign capital outflows from emerging economies – contributed to a rise in price competitiveness of Polish products. As a result, in 2009 exports decreased by 8.0% and imports by 13.5%, turning the contribution of net exports to GDP growth positive and making it the main demand factor of economic growth in Poland (the contribution of net exports to GDP growth was 2.7 percentage points). A reduction in foreign demand and worsening prospects for the development of economic activity contributed also to a decline in domestic demand, which was primarily driven by a reduction in inventories and investments of enterprises. At the same time, consumption continued to rise, although its growth rate clearly decreased. The economic slowdown was accompanied by a significant deterioration in the labour market, leading to a decline in employment levels and a concurrent rise in unemployment. The nominal and real wage growth also slowed down, which limited the employment decline and the unemployment increase. Rapid adjustment in the level of wages and, consequently, limited reductions in employment were some of the factors distinguishing this downturn from a slowdown of 2001-2002.

Figure 2.2
EUR/PLN exchange rate in 1999-2010

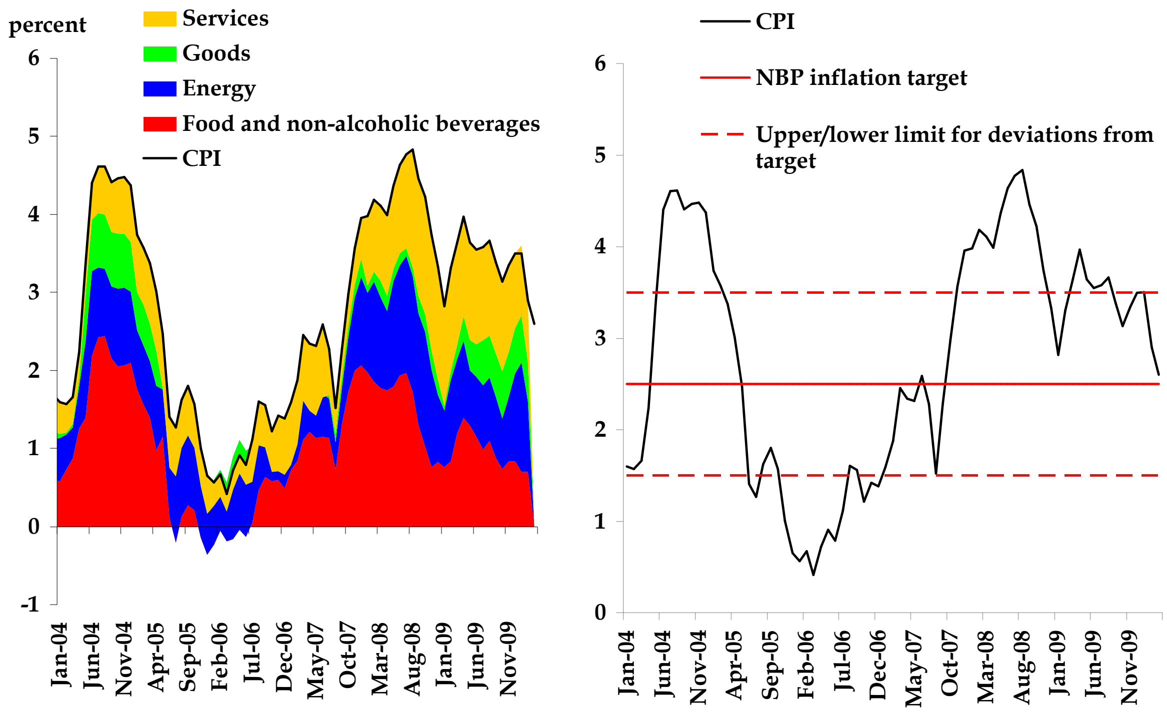
Source: NBP data.

The strong economic slowdown also contributed to a substantial deterioration in public finances, whose deficit in relation to GDP almost doubled in 2009 reaching 7.1%. The increased fiscal imbalance resulted from both the effects of the so-called automatic stabilisers[3] and higher structural deficit of public finances, which was one of the factors mitigating the impact of the crisis on the Polish economy.

[3] Automatic stabilisers trigger spontaneous adjustment of the budget deficit in response to fluctuations in economic activity, which has a stabilising effect on the economy. This is because during an economic slowdown, the deficit automatically increases as a result of falling tax revenues and rising expenditure associated with unemployment and social security, while in the recovery phase a reverse phenomenon occurs.

The economic slowdown was accompanied by a fall in lending to enterprises and a significant reduction in the growth rate of household indebtedness (Appendix 4). The deceleration in lending was the result of the tightening of credit policy by banks due to limited transactions in the interbank market, increased credit risk of enterprises and households and a deterioration of banks' loan portfolios.

Figure 2.3
Impact of the major groups on the annual growth of prices of goods and services (left-hand graph) and the annual growth of prices of consumer goods and services versus the inflation target (right-hand graph)



Source: GUS data, NBP calculations.

In 2009 the annual growth of prices of consumer goods and services (the Consumer Price Index – CPI) decreased by 0.7 percentage points as compared to 2008 and amounted to 3.5%, hovering at the upper limit for deviations from the NBP inflation target set at 2.5% (Appendix 2). The elevated CPI path in 2009 resulted largely from the effect of factors outside the direct influence of domestic monetary policy, especially increases of administered prices and excise duty rates and the substantial depreciation of the zloty in the period between July 2008 and February 2009, resulting from an increase in risk aversion in global financial markets and outflows of foreign capital from emerging markets. In March 2009 the zloty exchange rate stabilised, and then – together with the improved outlook for world economic growth and the decline in global risk aversion – was gradually strengthening (Figure 2.2). One of the factors that could have contributed to the stabilisation of the zloty in 2009 was Poland's obtaining access to the Flexible Credit Line with the IMF in the amount of USD 20.6 billion.[4] The exchange rate appreciation was conducive to curbing the rise in oil prices observed in the second half of 2009, thus mitigating the growth of inflation in that period.

[4] Flexible Credit Line is an instrument of the IMF aimed at preventing the outbreak and spread of the financial crisis. It is only granted to countries which have solid economic fundamentals, conducted a responsible macroeconomic policy in the past and in which there is a will and a high probability of continuing such policy in the future. Apart from Poland, in 2009 access to the Flexible Credit Line was obtained by Mexico and Colombia. As the Flexible Credit Line is granted to countries with strong economic fundamentals, it could have fostered a greater differentiation of risk assessments for the Polish economy and other countries in the region of Central and Eastern Europe, reflecting a relatively favourable condition and growth prospects of the Polish economy as compared to other economies of the region.

2.2. Monetary policy in 2009

Similarly to previous years, in its interest rate decisions the Council on each occasion considered the mid-term inflation outlook, assessing it in the context of past, current and especially the anticipated economic situation. The decisions of the Council were affected by the changing assessment of factors influencing the probabilities of future inflation running above or below the target. The assessment took into consideration the results of subsequent projections of the NBP's Economic Institute and other forecasting activities, as well as the developments of variables and information not directly accounted for in the projections.

In the first half of 2009 – taking into account the macroeconomic data being released and forecasts pointing to a strong reduction in economic activity in the world and in Poland, which was conducive to containing inflationary pressures in the medium term – the Council continued the monetary policy easing started in late 2008. During this period, the NBP interest rates were reduced on four occasions in January, February, March and June, by a total of 150 basis points (the NBP reference rate was cut to 3.50%). Additionally, in May 2009 the Council lowered the required reserve ratio by 0.5 percentage points (from 3.5% to 3.0%).

In the second half of 2009 – in view of the gradually improving situation in the economy amid persisting considerable uncertainty about the sustainability of the economic recovery – the Council kept interest rates unchanged. Until September, however, the Council assessed the probability of inflation running below the inflation target in the medium term to be higher than the probability of its running above the target. In October the Council changed its assessment of risks to the achievement of the inflation target in the medium term, seeing the probabilities of inflation in the medium term running above and below the target to be balanced, thus marking the end of the monetary policy easing cycle. The Council maintained that assessment till the end of 2009.

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At the turn of 2008 and 2009 the downturn in economic activity in the world deepened. Data on GDP and other macroeconomic variables released in the first months of 2009 indicated that due to the recession in the external environment and the ensuing reduction in the demand for Polish goods, the economic growth in Poland was significantly slowing. Similarly as abroad, the economic activity weakening was also connected with the limited credit availability and its elevated costs due to the significant tightening in loan granting conditions by banks and heightened risk premia included in market interest rates. Additionally, data on labour market developments pointed to a decline in employment, increasing unemployment and slowing wage growth, which was conducive to reducing inflationary pressure. At the same time, inflation remained at an elevated level due to the increase in administered prices, in particular the prices of energy carriers, and the depreciation of the zloty. The Council assessed, however, that in the medium term recession in the global economy, which was contributing to the slowdown in the country's economic growth, as well as the easing wage pressure, and the tightening of banks' credit policy would curb the inflationary pressure in Poland. Such assessment was also supported by the projection of inflation and GDP prepared by the NBP's Economic Institute in February 2009, according to which the CPI inflation – under the assumption of unchanged interest rates – was to decline steadily in line with the central projection path to 0.8% in the projection horizon, i.e. till the end of 2011. At the same time, the projection indicated a significant slowdown in GDP growth, which in 2009-2010 – assuming unchanged interest rates – was seen at 0.9% and 2.4%, respectively (in line with the central path), as well as a deepening of the negative output gap and an increase in the unemployment rate throughout the projection horizon.

Although current inflation remained at an elevated level, at its meetings in January, February and March the Council concluded that, given the significant deterioration in economic growth prospects and the expected easing of inflationary pressure, further significant monetary policy easing[5] was required to stabilise inflation at the NBP's inflation target over the medium term. Monetary policy easing was also sup-

[5] In November and December 2008 the Council lowered NBP interest rates by 0.25 and 0.75 percentage points, respectively.

ported by the government's declared commitment to maintain discipline in the public finance sector. In January 2009 the Council decided to cut interest rates by 0.75 percentage points, while in February and March – by 0.25 percentage points on each occasion. The Council assessed that the easing of monetary policy should contribute to stabilising economic growth around potential output growth, which was expected to support the achievement of the inflation target in the medium term.

In this period the Council's decisions were also influenced by the developments of the zloty exchange rate, which in the first two months of 2009 – similarly as in the second half of 2008 – was strongly depreciating. On the one hand, the Council pointed out that the depreciation of the zloty increased the zloty value of foreign currency liabilities of economic agents, which could have contributed to reducing domestic demand. On the other hand, the Council indicated that the depreciation was conducive to an increase in inflation. In February 2009, in order to reduce the risk of a further weakening of the exchange rate, the Council cut the interest rate on a smaller scale than in January. In the press release following the meeting the Council also stressed that the exchange rate of the zloty was weaker than the equilibrium exchange rate and did not reflect the relatively favourable state and outlook of the Polish economy. The Council also pointed out that the NBP might make use of instruments directly affecting the zloty exchange rate.

At its meetings in April and May, the Council continued to assess the probability of inflation running below the inflation target in the medium term as higher than the probability of its running above the target, yet, at both meetings NBP interest rates were kept unchanged. Such decisions were primarily justified by the uncertainty surrounding the prospects for economic recovery in the world and in Poland and about the situation of public finances and their impact on inflation, the very low level of real interest rates and – at the April meeting – also the persistent uncertainty regarding the developments of the zloty exchange rate. In May the Council concluded that the decline in lending by commercial banks warranted a reduction of the required reserve ratio by 0.5 percentage points, from 3.5% to 3.0%.

At the meeting in June 2009 the Council got acquainted with the latest projection of inflation and GDP, which indicated that CPI inflation would be falling till the end of 2010 (reaching the NBP's inflation target in the first half of 2010) and then it would rise again in 2011, even though it was expected to stay below the inflation target. In turn, in line with the projection economic growth in Poland was to slow down till 2009 Q3 and then to accelerate in subsequent quarters, in the wake of the global economy's recovery from the recession. The Council assessed that inflation in the coming months would probably decrease, though it would remain at an elevated level, mainly due to relatively high annual growth of food prices and administered prices. At the same time, the Council assessed that in the medium term the drop in demand and subdued wage pressures resulting from the economic slowdown should both lead to an inflation decrease. With this in mind, at the June meeting the Council cut NBP interest rates by 0.25 percentage points, indicating that the effected interest rate cuts and the reduction of the required reserve ratio would favour the economy's return to the path of potential growth.

The data released in July, August and September 2009 suggested that economic activity in Poland was still low. The decline in employment in the enterprise sector was deepening and the rate of unemployment was rising. At the same time, part of the monthly data, including those suggesting some acceleration in the growth of retail sales in July, rise of the majority of economic climate indicators in August and September, as well as data on industrial and construction and assembly output published in September, signalled the possibility of some improvement in the overall economic situation. The inflation running in these months above the upper limit for deviations from the inflation target was mainly due to the previously introduced increases of administered prices and the earlier depreciation of the zloty. The Council upheld its assessment that inflation in the following months might still be running at elevated levels mainly due to the relatively high prices of food and energy carriers, while also stressing that the oil price hike recorded in this period was partially mitigated by the appreciation of the zloty observed since February 2009. However, in view of the predictions that a low demand pressure and a reduced rate of labour costs growth should lead to lower inflation in the medium term, at the meetings in July and August, the Council assessed the probability of inflation in the medium term running below the inflation target to be higher than the probability of its running above the target. The Council kept NBP interest rates unchanged at those meetings. The Council did not change interest rates in September either and upheld its assessment of the risks to achieving the inflation target over the medium term formulated in the previous months, yet, it stated that the probability of inflation running below target in the medium term had decreased. According to the Council, the previous easing of the monetary policy together with the expected improvement of the global economic climate were to foster the return of the economy to the path of potential growth.

In the following months, economic activity in Poland's main trading partners remained at a low level, although incoming data pointed to its gradual improvement. Information on the Polish economy, including data on the output of industry and the construction and assembly sector and on retail sales, as well as many economic climate indicators, pointed to an improvement of economic situation in 2009 Q3. In October, the Council got acquainted with the latest projection of inflation and GDP, which suggested that CPI inflation in 2009 could be higher, and in 2010 much lower than in the June projection, while in 2011 it could rise again while remaining close to the inflation target. In turn, in line with the central projection economic growth was to remain below 2% y/y till 2010 Q3. In subsequent quarters GDP growth was projected to increase slowly to reach a level close to potential output growth in the second half of 2011. At the same time, the Council still assessed that inflation would run at a heightened level mainly due to the relatively high annual growth of food and administered prices. In the opinion of the Council, higher inflation could also be driven by oil price increases, which were, however, partly offset by the continuing appreciation of the zloty. The elevated level of inflation could also be supported by possible further increases of administered prices. In the medium term, the Council expected that the low demand pressure and limited labour costs growth, amid persistent uncertainty about the future rate of economic growth, should lead to an inflation decline. Considering these factors, at its meeting in October the Council kept interest rates unchanged, changing the assessment of risks to achieving the inflation target over the medium term by stating that the probabilities of inflation running above and below target over the medium term were balanced.

In November and December 2009 there appeared further signs of recovery in the global economy. After several quarters of decline, 2009 Q3 brought GDP growth in the United States and the euro area. At the same time, incoming data revealed a strong increase in economic activity in the largest emerging economies. Improved activity in the real economy worldwide was accompanied with increases in the prices of financial assets, including the appreciation of the currencies of emerging economies, and growth of commodity prices in international markets. Data on the Polish economy also pointed to improving economic conditions. In 2009 Q4 inflation continued to hover above the NBP's inflation target and the Council expected a temporary increase in the CPI in the following months. At the same time, in the subsequent quarters the Council expected a substantial inflation reduction, which was to result – apart from negative base effects – from low demand pressure, reduced growth of labour costs and the previously observed appreciation of the zloty. In turn, rising commodity prices in world markets and increases in taxes and administered prices might – in the Council's view – mitigate the inflation decline in 2010. In November and December 2009 the Council confirmed the assessment that the probabilities of inflation running above and below target were balanced and kept NBP interest rates unchanged.

An important element of conducting monetary policy based on inflation targeting was, as in previous years, the communication with the public, involving the Council's presentation of its assessment of the current state of the economy and the future path of economic processes. The most important instruments of communication in 2009 included the following cyclical publications: *Inflation Reports*, *Information from the meeting of the Monetary Policy Council* (with accompanying press conferences organised after the Council's meetings), *Minutes of the Monetary Policy Council decision-making meetings*[6] (Appendix 5), as well as the *Report on the Implementation of Monetary Policy Guidelines in 2008* and *Monetary Policy Guidelines for the Year 2010*.

[6] *Minutes of the Monetary Policy Council decision-making meeting* (Appendix 5) present a more detailed discussion of the problems and arguments which had a significant impact on the decisions taken by the Council in 2009.

Chapter 3.

Monetary policy instruments

In 2009 the National Bank of Poland pursued the monetary policy influencing the inflation level through the interest rate channel. The Monetary Policy Council set the NBP's official interest rates which determined the yield on monetary policy instruments. In order to steer short-term interest rates, the NBP used the following instruments: open market operations, lending and deposit operations (standing facilities) and reserve requirements. By influencing the level of short-term interest rates of the money market, the Monetary Policy Council strived to achieve such a level of interest rates in the economy that would be consistent with the adopted inflation target.

Similarly to 2008 Q4, the NBP used a wider set of monetary policy instruments than in the previous years. In accordance with the so-called "Confidence Package" introduced in October 2008, in 2009 the central bank conducted regular operations providing zloty liquidity to the banking sector in the form of repo operations and liquidity in foreign currency in the form of foreign exchange swaps. Those operations were continued due to persisting tensions in the domestic financial markets and banks' limited access to financing in domestic and foreign currencies.

3.1. Liquidity in the banking sector in 2009

In 2009 the NBP pursued its monetary policy in the situation of constantly increasing liquidity surplus [7] of the banking sector.

The average level of banking sector liquidity in 2009 amounted to PLN 23,940 million. This means an increase by PLN 12,976 million, i.e. by 118% as compared to 2008. This change resulted mainly from the influence of so-called autonomous factors independent from the NBP. The level of short-term liquidity of the banking sector was also affected by measures undertaken by the central bank.

As regards autonomous factors, the largest contribution to the increase in the level of short-term liquidity came from the net purchase by the NBP of foreign currency, originating mainly from EU funds as well as from exchange of foreign currency into the Polish zloty at the NBP carried out by the Ministry of Finance. Net purchases of foreign currency contributed to a rise in liquidity surplus on average by PLN 21,416 million, from December 2008 to December 2009. Another factor that contributed to the increase of liquidity was the decreasing level of currency in circulation - from December 2008 to December 2009, by PLN 1,470 million (the annual rate of changes in currency in circulation amounted in December 2009 to -1.4%). Other factors affected the liquidity of the banking sector to a lesser extent.

[7] Liquidity surplus of the banking sector is the surplus of funds retained by the banking sector above the average level of banks' current accounts, determined by the value of the required reserve in the periods when it is maintained. Liquidity surplus is measured by the balance of main operations (NBP bills issues), fine-tuning operations (repo operations), foreign exchange swaps and standing facilities (standing deposit facility and lombard credit).

Measures undertaken by the NBP contributing to a rise in short-term liquidity in 2009 involved the following:

- buying back of the NBP bonds before maturity on 22 January 2009 (in accordance with the decision taken by the Management Board of the NBP) and
- reduction of the required reserve ratio by 0.5 percentage point starting from 30 June 2009 (in accordance with the decision of the Monetary Policy Council).

3.2. Monetary policy tools in 2009

In 2009 the set of monetary policy instruments used by the NBP did not differ significantly from the one used in 2008, modified after the introduction of the Confidence Package. There were two basic reasons why it was not necessary to introduce considerable modifications in the operating system of the monetary policy. Firstly, in comparison with other countries, the situation in the banking sector in Poland worsened to a lesser extent. Another important factor which influenced the way of the NBP's responding to the spread of the financial crisis, was the growing level of liquidity surplus of the domestic banking sector. This factor mitigated potential liquidity tensions connected with the turmoil in the interbank market.

Interest rate

In 2009 the principal monetary policy instrument was the short-term interest rate. The Monetary Policy Council set the NBP's official interest rates which determined the remuneration of monetary policy instruments.

The main interest rate of the NBP was the reference rate. Changes in the NBP's reference rate set the direction of the pursued monetary policy. This rate determined the remuneration of main open market operations, influencing, at the same time, the level of short-term interest rates on the unsecured interbank deposit market.

The deposit rate and the lombard rate of the NBP determined the corridor for overnight interest rates fluctuations in the interbank market. The rediscount rate indirectly determined the interest on the required reserve holdings.

In 2009 the Council changed the key NBP rates on four occasions. The changes took place in the first half of the year. As a result, the reference, lombard, deposit and rediscount rates at the end of 2009 reached the level which was 150 basis points lower than at the end of 2008. The corridor for overnight interest rate fluctuations on the interbank market remained unchanged at +/–1.5 percentage points around the reference rate.

Moreover, at its meeting held on 23 December 2009, the Council took a decision to introduce on 1 January 2010 the rediscount rate determining the interest rate on bill discount credit offered by the NBP.

Table 3.1
Decisions of the Monetary Policy Council regarding changes in official interest rates in 2009.

Decision date*	Decision:
27 January 2009	- Cutting the reference rate from 5.00% to 4.25% - Cutting the lombard rate from 6.50% to 5.75% - Cutting the rediscount rate from 5.25% to 4.50% - Cutting the deposit rate from 3.50% to 2.75%.
25 February 2009	- Cutting the reference rate from 4.25% to 4.00% - Cutting the lombard rate from 5.75% to 5.50% - Cutting the rediscount rate from 4.50% to 4.25% - Cutting the deposit rate from 2.75% to 2.50%.
25 March 2009	- Cutting the reference rate from 4.00% to 3.75% - Cutting the lombard rate from 5.50% to 5.25% - Cutting the rediscount rate from 4.25% to 4.00% - Cutting the deposit rate from 2.50% to 2.25%.
24 June 2009	- Cutting the reference rate from 3.75% to 3,50% - Cutting the lombard rate from 5.25% to 5.00% - Cutting the rediscount rate from 4.00% to 3.75% - Cutting the deposit rate from 2.25% to 2.00%.

Source: NBP data.

* Decisions came into force on the following business day.

In accordance with the Monetary Policy Guidelines, in 2009 the NBP strived, through open market operations, especially main ones, to impact the liquidity conditions in the banking sector in such a way so as to enable the POLONIA rate[8] to run close to the NBP reference rate. [9]

As compared to the previous years, the effectiveness of the NBP's influence on liquidity conditions in 2009 was limited. This resulted mainly from banks' less active (as compared to the period before the financial crisis) participation in tenders for main open market operations, which was reflected in the so-called underbidding.[10]

The lower activity of banks participating in tenders for main operations was connected with their intention to maintain current liquidity surpluses. The change in preferences as regards management of their own liquidity positions resulted mainly from prudential considerations. After the bankruptcy of the Lehman Brothers investment bank the crisis in the global financial markets intensified and banks drastically reduced their mutual limits for transactions concluded on the unsecured interbank deposit markets. While managing their own liquidity position, they had to take into account a higher risk of difficulties in satisfying their current liquidity needs on the interbank market. This situation resulted in a strong shift in banks' preferences towards management of their own liquidity positions based on overnight operations. As a result, long-term operations (both in the market as well as at the central bank) were limited.[11]

During the required reserve maintenance periods, the surplus liquidity not absorbed in the form of NBP's main operations, was maintained by banks with the use of two instruments offered by the NBP. At the beginning of required reserve maintenance periods, banks strived to hold more funds on current accounts at the central bank (above the level of reserve requirement). While holding more funds on current accounts banks could comply, at an earlier stage, with the reserve requirement. This phenomenon, called frontloading, was characteristic in the discussed period of monetary policy operational frameworks of many central banks using the averaged required reserve framework. The averaged reserve requirement and the absence of remuneration of funds held with the NBP above the level of reserve requirement, encouraged banks, at the end of the maintenance periods, to place the accumulated excess funds with the central bank using standing deposit facility. This instrument made it possible to maintain similar flexibility in the management of the accumulated liquidity surplus as in the case of frontloading.

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[8] POLONIA (Polish Overnight Index Average) – average overnight rate weighted with the value of transactions on the unsecured interbank deposit market. The NBP publishes the levels of this rate on the Reuters information site (NBPS) every day at 5.00 p. m.

[9] Monetary Policy Guidelines, p. 15

[10] Situation in which at the tender for a monetary policy operation the banks' total bid is lower than the supply offered by the central bank.

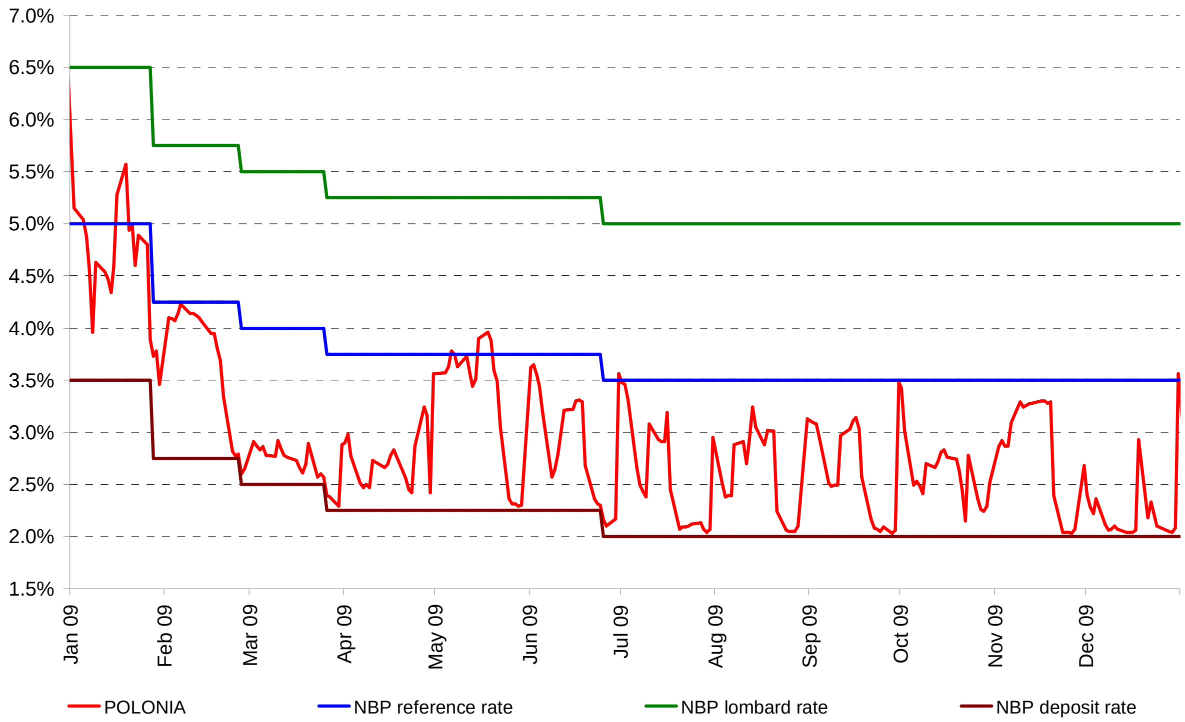
[11] This was reflected in the observed considerable decline in transactions volume and the shortening of maturity of unsecured deposits on the interbank market.

At the same time, it allowed to earn income on the accumulated funds (1.5 percentage points below the yield offered by the central bank through the issuance of NBP bills).

The underbidding in tenders for main operations, resulting from banks' preferences to manage their liquidity on an overnight basis, led to the situation in which in the required reserve maintenance periods, banks generally held current liquidity surpluses. As a result, they deposited excess funds for the shortest possible period in the interbank market at yields lower than the NBP reference rate and made an overnight deposit with the NBP, bearing interest rate at the level of the NBP deposit rate. Thus, the POLONIA rate was in the majority of cases below the NBP reference rate (see Figure 3.1).

Similar trends in 2010 were observed in the interbank markets of the euro area, the United Kingdom and countries with liquidity conditions in the banking sector similar to those existing in Poland (e.g. Hungary).

Figure 3.1
The NBP interest rates and POLONIA rate in 2009



Source: NBP data.

As a result of all the factors described above the average deviation [12] of POLONIA rate from the NBP reference rate in 2009 was 89 basis points (as compared with 32 basis points in 2008).

Open market operations

As indicated above, in 2009 the main open market operations were the principal instrument of influencing the level of market interest rates. Additionally, the NBP conducted, on a regular basis, fine-tuning operations aimed at providing the banking sector with longer-term liquidity (repo transactions) and made use of a structural operation involving buying back of NBP bonds before maturity.

The main open market operations were conducted on a regular basis, once a week, in the form of issuance of NBP bills with a 7-day maturity. In 2009 the average level of issuance of NBP bills amounted to PLN 31,873 million and was higher than the average level in 2008 by PLN 20,343 million. The increasing

[12] Average deviation of POLONIA rate was calculated according to the uniform base of 365 days in the year.

level of NBP bills issue in 2009 was the result of rising liquidity surplus in the domestic banking sector. As mentioned in point 3.1, the factor which contributed to the largest extent to a rise in liquidity surplus was the NBP's purchase of foreign currency. Regular conducting of repo operations by the NBP providing liquidity to the banking sector was also of considerable importance for the level of NBP bills issue. Until 19 February 2009, main operations were performed by the NBP without announcing the volume of bills supply which was largely caused by the fact that banks' preferences as regards liquidity in the situation of intensifying financial crisis differed considerably from those in a normal situation and the ensuing difficulty for the NBP to set the intended liquidity conditions in the banking sector. In this period the NBP accepted each time the total demand received from banks in the tender. With the situation in the domestic interbank market improving gradually, the supply of money bills started to be published again since 20 February 2009. This meant return to the active liquidity management by the NBP.

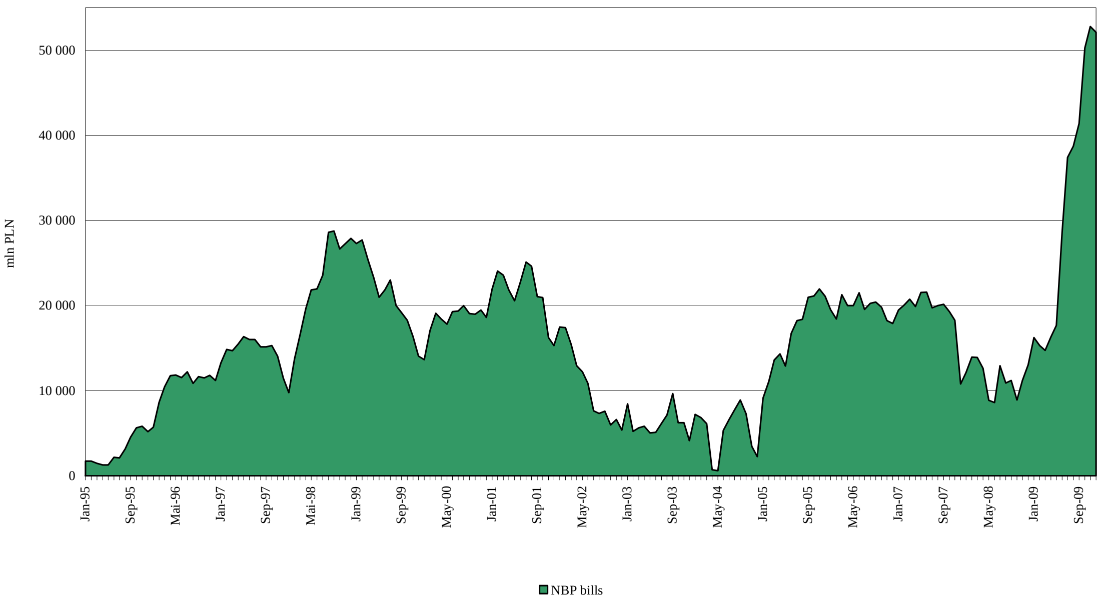
Under fine-tuning operations, in line with the tasks outlined in the Confidence Package published in October 2008, in 2009 the NBP continued repo transactions providing liquidity to the banking sector for longer periods. Those operations were collateralised with securities accepted by the NBP (a detailed list of eligible securities is published on the website of the central bank).

In order to increase the potential liquidity supply made available to banks, in 2009 the list of eligible assets accepted for repo operations, was extended to include the following securities:

- debt securities in foreign currency (debt securities in euro issued by the government of the Republic of Poland were added to the list),

- other debt as well as securities issued by the NBP deposited with the National Depository for Securities (KDPW) other than treasury securities (the list includes: utility bonds, bonds of the European Investment Bank, bonds of BGK issued for the National Road Fund, mortgage bonds).

Figure 3.2
Average monthly balance of basic open market operations 1995 - 2009



Source: NBP data.

In the period January – April 2009, the NBP conducted repo operations once a month (on the second Tuesday of the month), with a 3-month maturity. In May operations with a 6-month maturity were additionally introduced and carried out on a regular basis, once a month (on the third Tuesday of the month). In the case of both types of operations, the central bank did not announce the supply, fully allotting the total demand received from banks, unless the rate offered by banks was not lower than the minimum rate published by the NBP. The policy of full allotment of bank bids, in accordance with one of the objectives of the Confidence Package, offered banks the opportunity to be provided with zloty liquidity at the NBP for periods longer than 1 day in a situation of tensions persisting in the domestic financial markets. The average level of repo operations in 2009 amounted to PLN 11,456 million and was higher by 437% as compared to 2008 when its value reached PLN 2,135 million. Yet, it should be remembered that these operations were introduced in 2008 Q4.

In 2009 the NBP carried out also a structural operation involving the buying back of NBP bonds before maturity. As a result, the banking sector was provided with liquid funds of PLN 7,816 million. The decision of the NBP's Management Board to buy back 10-year bonds before maturity was aimed at improving the liquidity of the banking sector in the situation of lack of confidence in the interbank market.

Reserve requirement

In 2009 the requirement to maintain a specific amount of reserves on accounts with the NBP applied to banks, branches of credit institutions and branches of foreign banks operating in Poland. Required reserves were maintained in the averaged system. Banks were obliged to hold the average balance of funds on accounts with the NBP during the maintenance period at a level not lower than the amount of the reserve requirement.

Required reserves were calculated on the basis of banks' collected deposits and funds received from the sale of securities. Excluded from the reserve calculation base were funds received from another domestic bank, acquired from abroad for the period of minimum two years and deposited in credit and savings accounts of building societies and in individual pension funds. Required reserves were calculated and maintained in the Polish zloty.

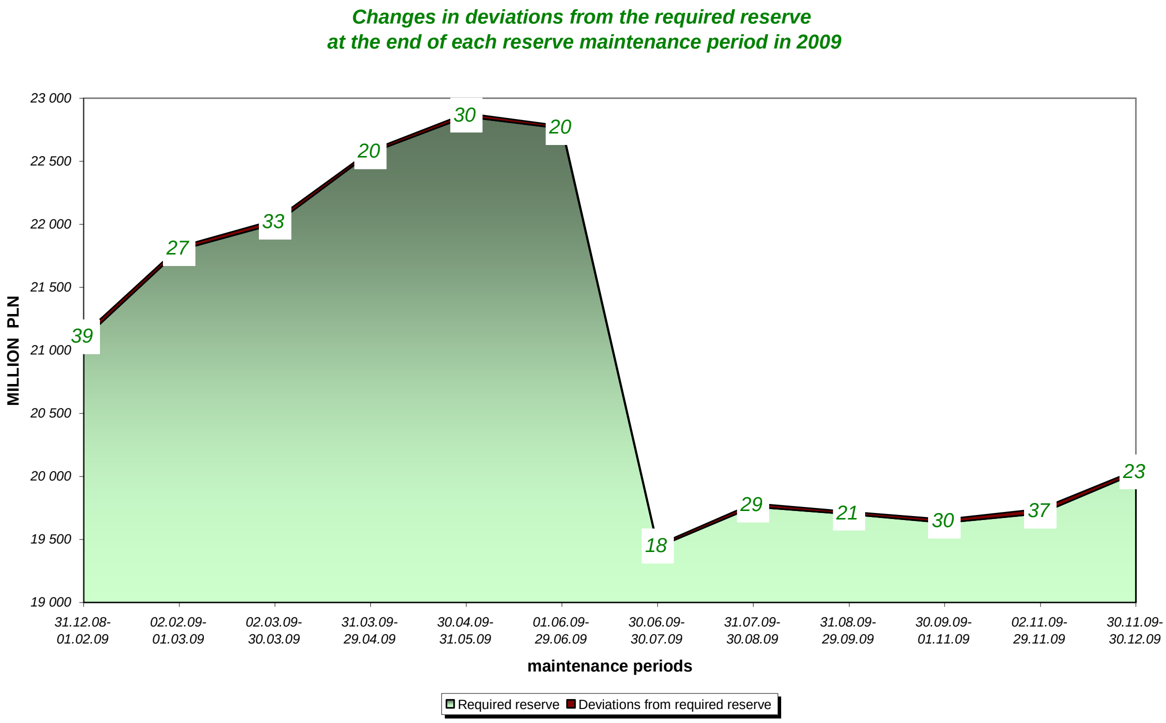
On 30 June 2009 the Council reduced the ratio of reserve requirement from 3.5% to 3.0% (for funds acquired from the sale of repo securities the rate did not change in 2009 and amounted to 0%). The reduction of the reserve requirement ratio aimed in particular at supporting bank lending.

Banks reduced the amount of calculated reserve requirement by the equivalent of EUR 500 thousand. The holdings of required reserves held on NBP accounts were remunerated at 0.9 of the NBP rediscount rate. The average interest on reserve requirement funds in 2009 amounted to 3.6%.

The decision by the MPC to reduce the reserve requirement ratio by 0.5 percentage points led to the reduction of the level of reserve requirement starting from the second half of 2009. The required reserves level in July decreased as compared to June 2009 by PLN 3.319 million, i.e. by 14.6%, while the deposits constituting the reserve base remained approximately the same.

The amount of required reserves was PLN 20,148 million on 31 December 2009 showing a decrease of PLN 941 million (4.5%) as compared to 31 December 2008. The deposits constituting the reserve base and to which the positive ratio was applied increased by 11.9% in that period. If the reduction of the required reserves had not taken place in June 2009 the amount of required reserves on 31 December 2009 would have stood at PLN 23,673 million and would have been higher than the level of required reserves at the end of 2008 by PLN 2,584 million, i.e. by 12.3%.

Figure 3.3
Changes of required reserves level and deviations from reserve requirement in 2009



Source: NBP data.

In all the required reserves maintenance periods a surplus persisted in the average balance of funds in relation to the required level of reserves (on average PLN 27 million, i.e. 0.13%) . In particular periods this surplus ranged from PLN 18 million in July (0.09%) to PLN 39 million in January (0.18%). The reduction of the difference between the required and maintained reserves in particular reserve maintenance periods was supported by:

- remuneration of reserve holdings only to the amount of the reserve requirement,
- banks' use of instruments facilitating asset management on the NBP accounts (intraday credit, standing deposit facility and lombard credit).

Injection of additional liquidity to banks by the NBP (buy-back of NBP bonds before maturity and reduction of the required reserve ratio) supported banks in asset management, and facilitated maintaining the reserve holdings at the level required in every reserves maintenance period, which materialised for the first time since the introduction of the reserve requirement instrument in 1989.

Standing facilities

Standing facilities served as instruments stabilising the level of liquidity in the interbank market and the scale of overnight rate fluctuations. These operations were conducted at the initiative of commercial banks with the purpose of providing short-term liquidity to the banking sector or allowing banks to deposit their excess holdings for overnight periods with the NBP. In such a way the central bank was able to limit the fluctuations of the shortest market rates on the interbank market, particularly the overnight rate. The lombard rate determining the maximum cost of funding with the NBP set a ceiling on fluctuations of interbank rates, while the deposit rate constituted the floor.

In 2009 banks made use of lombard credit collateralised with securities in order to supplement their current liquidity on current accounts with the NBP. The total amount of credit used in 2009 was PLN 5.0 billion, compared to PLN 5.2 billion in 2008, while the average daily use of lombard credit was PLN 13.8 million as compared to PLN 14.3 million in 2008.

In order to increase the liquidity pool available to commercial banks the NBP widened the list of eligible assets (collateral) thus allowing banks to use, starting from 2 July 2009, lombard credit collateralised with debt securities denominated in foreign currencies. A detailed list of these securities is published on the website of the NBP.

In 2009 banks' total use of deposit facility offered by the NBP amounted to PLN 898.1 billion (calculated as the sum total on the days of its use), which was an amount that was 72.7% higher than the deposits placed in 2008. The total value of overnight deposits placed by banks ranged between PLN 10 million and PLN 23.5 billion. The average daily level of overnight deposits amounted to PLN 2,460.6 million as compared to PLN 1,421.7 million in 2008. The highest amounts were deposited by banks in the last days of the required reserve maintenance periods.

Foreign exchange swaps

In October 2008 the MPC modified the set of monetary policy instruments complementing it with the foreign exchange swap. By means of foreign exchange swap transactions the NBP could purchase (or sell) the zloty with foreign currencies in the spot market while simultaneously reselling (or repurchasing) it on a forward transaction basis on a specified date.

In 2009 the NBP offered foreign exchange swaps in three currency pairs – USD/PLN, EUR/PLN and CHF/PLN. The operations were offered on a regular basis:

- weekly, on Monday, in all the above-mentioned currency pairs, in principle with a maturity of 7 days,
- monthly, on the first Wednesday of the month, in USD/PLN and EUR/PLN currency pairs, with a maturity of 28 days.

Banks showed the greatest interest in the swaps conducted in the CHF/PLN currency pair. The demand for this kind of operations continued till October 2009 (the last operation for which banks reported demand was carried out on 26 October 2009). As regards the other two currency pairs, banks did not report demand for this instrument starting from March 2009.

The highest use of foreign exchange swaps was recorded in 2009 Q1 (at the end of March the equivalent value of currencies that banks acquired in this way approached PLN 4 billion). In two subsequent quarters the amount of injections stabilised at the level of approx. PLN 500 million (equivalent value).

In average annual terms the operations in the form of foreign exchange swaps reduced the liquidity of the banking sector by PLN 1,074 million, as compared to a reduction of PLN 162 million in 2008.

Other operations

Intraday credit facility serves as an instrument facilitating liquidity management in the banking sector during the business day, while at the same time ensuring the interbank settlement liquidity in the NBP. It is a non-interest bearing credit collateralised with Treasury securities and NBP-issued securities that is incurred and repaid during the same business day. In 2009 the daily injection of liquidity to banks with the use of this instrument ranged between PLN 12.4 billion and PLN 29.5 billion. The use of intraday credit facility rose in 2009 by 7.5% in relation to 2008, i.e. by PLN 272.6 billion, which was a lower growth rate than in the previous period (an increase of 17.1% in 2008).

The level of intraday credit facility use remains primarily closely correlated with the liquidity management policy followed in commercial banks. In view of the fact that this instrument is a non-interest bearing facility, banks use it also as a buffer reducing the risk of a lack of liquidity to meet their obligations in interbank settlements.

Intraday credit in the euro serves to ensure settlement liquidity in the SORBNET – EURO system. It is secured with Treasury bonds that have been previously accepted by the ECB. It is incurred and repaid during the same business day. In 2009 the daily injection of euro-denominated operational liquidity to banks ranged between EUR 0.9 million and EUR 3.4 million. The use of the intraday credit in the euro rose by 62.4% in relation to 2008.

Foreign exchange interventions

In 2009 the Monetary Policy Council did not find sufficient grounds for conducting foreign exchange interventions.

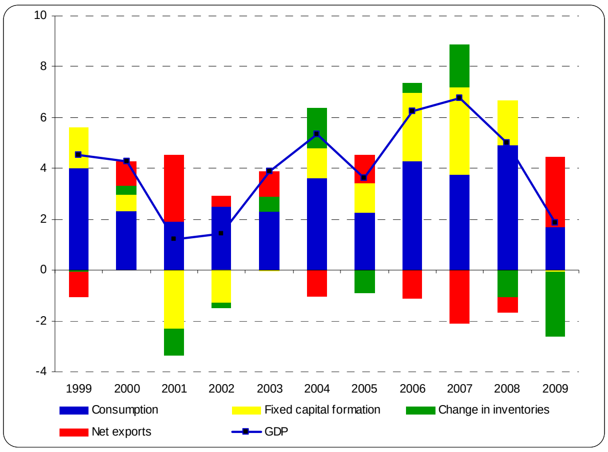
Appendix 1

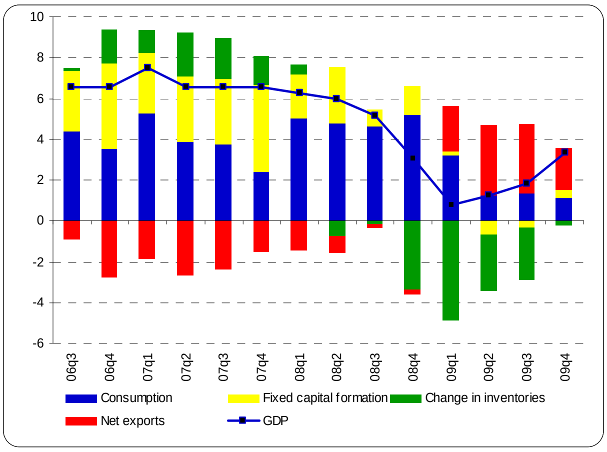
GDP and aggregate demand

In 2009 GDP growth in real terms decreased sharply (to 1.8% from 5.0% in the preceding year[13]), while domestic demand declined by 0.9% (compared to a rise of 5.5% in 2008). The drop in the growth of domestic demand was driven by a slower rise in total consumption (from 6.3% in 2008 to 2.1% in 2009) and a marked decline in the growth of gross capital formation (from 2.9% to -11.0%, respectively). The lower growth of total consumption was the result of a slowdown in both private consumption (from 5.9% in 2008 to 2.3% in 2009) and public consumption (from 7.5% y/y to 1.9%, respectively). In turn, the deceleration in capital formation was connected with a decrease in investment (-0.4% in 2009 compared to 8.2% in 2008) and a strong reduction in inventories (contribution of -2.4 percentage points to GDP growth in 2009). The main GDP growth factor was net exports, whose contribution to GDP growth in 2009 amounted to 2.7 percentage points.

The growth of gross value added[14] in 2009 amounted to 1.9% as compared to 5.0% a year earlier. The slower growth of gross value added in 2009 was the result of a drop in the growth of value added in industry (from 6.6% in 2008 to -1.1% in 2009), in market services (from 5.3% to 2.5%, respectively) and in construction (from 9.1% to 4.7%).

Figure A.1. 1
Contribution of aggregate demand components to GDP growth





Source: NBP calculations based on GUS data.

[13] All the numerical data on percentage changes of economic variables quoted in the text of the present appendix represent annual growth rates.
[14] Gross Domestic Product equals grossvalue added increased by taxes on products (including import duties) and reduced by product subsidies.

Table A.1. 1
GDP and domestic demand in 2002–2009

	2002	2003	2004	2005	2006	2007	2008	2009
	Growth rate of GDP and its components in constant prices (%)							
GDP	1.4	3.9	5.3	3.6	6.2	6.8	5.0	1.8
Domestic demand	1.0	2.8	6.2	2.5	7.3	8.7	5.5	-0.9
Consumption	3.0	2.7	4.3	2.7	5.2	4.6	6.3	2.1
Individual consumption	3.4	2.1	4.7	2.1	5.0	4.9	5.9	2.3
Capital formation	-7.2	3.3	14.7	1.4	16.1	24.3	2.9	-11.0
Gross fixed capital formation	-6.3	-0.1	6.4	6.5	14.9	17.6	8.2	-0.4
Exports	4.8	14.2	14.0	8.0	14.6	9.1	7.1	-8.0
Imports	2.8	9.6	15.8	4.7	17.3	13.7	8.0	-13.5
Contribution of net exports to GDP growth (percentage points)	0.5	1.0	-1.0	1.1	-1.1	-2.1	-0.6	2.7
	GDP composition in current prices (%)							
Domestic demand	103.5	102.7	102.4	100.7	101.8	102.9	104.0	99.9
Consumption	84.8	83.9	82.3	81.5	80.8	78.4	80.3	79.8
Capital formation	18.6	18.7	20.1	19.3	21.1	24.4	23.7	20.1
Net exports	-3.5	-2.7	-2.4	-0.7	-1.8	-2.9	-4.0	0.1

Source: GUS data.

In 2009, despite a relatively high growth of disposable income of households (4.3% in constant prices), the growth of individual consumption was lower than a year earlier. The increase in the rate of household savings was a result of deteriorating situation in the labour market and unfavourable growth outlook.

The growth of gross investment outlays in 2009 was -0.4% compared to 8.2% in 2008. The reduction in gross investment outlays resulted from a steep decline in the enterprise sector's investment, stemming from a significant deceleration of economic growth in the wake of the crisis in international financial markets and the global recession. The investment outlays of this sector dropped despite good financial results of enterprises in 2009. In 2009 a decrease in housing investments of households was also recorded. In turn, investment decline in the economy was limited by a very strong increase in investment expenditure of the public finance sector.

Foreign trade turnover lowered significantly in 2009, which was connected with a world trade breakdown triggered by the global crisis. At the same time, the depreciation of zloty exchange rate, related to the crisis, observed till February 2009 caused imports to fall stronger than exports, which translated into a positive contribution of net exports to GDP growth (2.7 percentage points) and a reduction in the current account deficit (from 5.1% of GDP in 2008 to 1.6% in 2009).

Appendix 2

Prices of consumer goods and services

Price index of consumer goods and services

In 2009 the average annual price index of consumer goods and services (CPI) amounted to 3.5%, i.e. was at the level of the NBP's upper limit for deviations from the inflation target. In the first months of 2009 this index showed a rising tendency (from 2.8% y/y in January to 4.0% y/y in April); then, it fell and remained until September around the NBP's upper limit for deviations from the inflation target. In October the annual CPI index decreased to 3.1%, and in the two subsequent months rose again, reaching 3.5% in December. The following factors contributed to such a path of the consumer goods and services price index: the annual growth rate of prices of food and non-alcoholic beverages rising in the first few months of 2009 and then gradually falling in the subsequent part of the year, the growth rate of energy prices fluctuating and growing at the end of the year (mainly as a result of fuel price increases), as well as the core inflation index net of food and energy prices rising steadily until July, remaining at an unchanged level until October and finally decreasing at the end of the year.

Prices of food and non-alcoholic beverages

The first few months of 2009 saw a strong increase in the annual growth rate of prices of food and non-alcoholic beverages - from 3.1% in January to 5.6% in April. This was driven, on the one hand, by a strong zloty depreciation observed until February 2009, and, on the other hand, by the fall in the domestic supply of some agricultural and food products (mainly meat). In May, the annual growth rate of prices of food and non-alcoholic beverages started to decline, down to 3.0% in October. The main factors behind such decline were good domestic crops , stabilization in the prices of agricultural commodities in the global markets, and zloty appreciation recorded since March 2009. In November and December the growth rate of food prices accelerated again to 3.4% (mainly due to a strong rise in dairy prices triggered by EU intervention in this market).

Energy prices

In the first few months of 2009 the annual growth of energy prices remained at a heightened level (ranging between 6 and 7% in the period February - April), yet, starting from May declined considerably, to accelerate at the end of the year (to 7.4% in December). The above path of energy price index in 2009 was affected, on the one hand, by high, albeit gradually slowing growth of prices of energy carriers (electricity, heat, gas and heating fuels), and, on the other hand, by the steadily rising growth of fuels (from -18.8% in January to 12.3% in December 2009), yet remaining negative almost throughout the whole year.

The high growth of energy prices in 2009 was largely the result of rises in regulated prices (electricity and heat), approved by the Energy Regulatory Office. On the other hand, the negative annual growth of fuel prices was driven by the negative base effect which was connected with a considerable rise in fuel prices in the first half of 2008, caused by a strong rise in oil prices. Another rise in oil prices observed throughout the whole year in the international markets contributed to a rise in fuel prices in 2009. Yet, its impact on the prices in Poland was limited by the appreciation of the exchange rate of the zloty against the US dollar observed since 2009 Q2.

Inflation net of food and energy prices (core inflation)

In 2009 the annual growth in the prices of consumer goods and services net of food and energy prices rose initially from 2.2% in January to 2.9% in July; then it remained at this level until October and decreased to 2.6% in December. Such a rise in inflation net of food and energy prices in annual terms was driven by a marked increase in the annual growth in prices of non-food articles and initially - a slight increase in the growth in prices of services.

The increase in the prices of non-food articles in 2009 was mainly caused by high rises in prices of excise goods, which translated into the high and rising growth in prices of those goods observed in the first half of the year and slightly falling in the second half of the year.[15] The increase in the prices of non-food articles was also driven by the rising growth in prices of imported goods (clothes, footwear, electronic equipment, cars), being the result of the previous zloty depreciation.

On the other hand, the annual growth in prices of services in 2009 Q1 weakened gradually, yet, persisting at a relatively high level. This was largely the result of high, albeit falling since June 2009, growth of prices of services connected with home maintenance, part of which (rentals charges, community services) are regulated prices.

[15] Under the process of adjusting excise tax rates in Poland to the minimum rates required by the EU legislation, in January 2009 a higher excise tax rate on tobacco products was introduced. Excise tax rate on alcoholic beverages was increased in March 2009.

Table A.2. 1

Changes in prices in the main groups of consumer goods and services in 2008 – 2009

	CPI	Food and non-alcoholic beverages	Energy	of which:		Inflation net of food and energy prices	of which:					
				energy carriers	fuels		Goods	excise products (alcohol, tobacco)	other goods	services	home maintenance	other services
	% structure of weights in CPI basket											
2008	**100.0**	**25.7**	**15.0**	10.9	4.2	**59.3**	31.7	5.7	26.0	27.6	6.0	21.6
2009	**100.0**	**24.6**	**15.3**	11.0	4.3	**60.1**	32.0	5.6	26.4	28.1	6.1	22.0
	Change in relation to the corresponding period of the previous year (%)											
2008 I	**4.0**	**7.8**	**6.9**	3.4	17.0	**1.6**	0.3	5.4	-0.8	3.2	8.8	1.7
II	**4.2**	**7.3**	**8.6**	6.8	13.8	**1.8**	0.4	5.6	-0.7	3.3	9.2	1.7
III	**4.1**	**7.0**	**7.8**	7.0	10.1	**2.0**	0.7	5.7	-0.4	3.5	9.5	1.9
IV	**4.0**	**6.8**	**6.8**	7.2	6.0	**2.1**	0.6	5.9	-0.5	3.7	9.5	2.2
V	**4.4**	**7.0**	**9.0**	9.8	7.0	**2.1**	0.5	6.0	-0.7	3.8	9.8	2.2
VI	**4.6**	**7.6**	**9.3**	10.0	7.5	**2.2**	0.5	5.8	-0.6	4.1	9.9	2.5
VII	**4.8**	**7.8**	**9.9**	10.6	8.2	**2.2**	0.3	5.6	-0.9	4.3	10.1	2.8
VIII	**4.8**	**6.9**	**9.8**	10.9	6.8	**2.7**	0.4	6.4	-1.0	5.4	10.3	4.1
IX	**4.5**	**5.1**	**9.5**	11.7	3.7	**2.9**	0.7	7.1	-0.8	5.5	10.2	4.1
X	**4.2**	**4.0**	**9.7**	12.7	1.9	**2.9**	0.7	7.5	-0.8	5.5	10.3	4.1
XI	**3.7**	**2.9**	**8.2**	14.0	-6.4	**2.9**	0.8	8.1	-0.8	5.4	10.3	4.1
XII	**3.3**	**3.2**	**5.6**	13.8	-15.0	**2.8**	0.6	8.2	-1.1	5.3	10.3	3.9
2009 I	**2.8**	**3.1**	**4.9**	14.8	-18.8	**2.2**	0.2	7.8	-1.4	4.5	8.4	3.4
II	**3.3**	**3.4**	**6.9**	14.4	-12.1	**2.4**	0.4	8.3	-1.3	4.7	8.4	3.7
III	**3.6**	**4.8**	**6.3**	13.9	-12.5	**2.5**	0.6	9.2	-1.2	4.7	8.5	3.6
IV	**4.0**	**5.6**	**6.6**	13.8	-11.4	**2.6**	1.0	9.8	-0.8	4.5	8.5	3.4
V	**3.6**	**5.2**	**4.6**	11.1	-11.5	**2.8**	1.2	10.0	-0.6	4.5	8.5	3.4
VI	**3.5**	**4.7**	**5.0**	10.6	-8.5	**2.7**	1.3	10.2	-0.5	4.3	8.3	3.2
VII	**3.6**	**4.0**	**5.3**	10.1	-6.0	**2.9**	1.8	12.1	-0.3	4.2	8.1	3.1
VIII	**3.7**	**4.5**	**5.2**	9.8	-6.0	**2.9**	1.7	10.3	-0.2	4.3	7.9	3.2
IX	**3.4**	**3.6**	**5.0**	8.9	-4.9	**2.9**	1.7	9.4	0.1	4.1	7.8	3.1
X	**3.1**	**3.0**	**4.2**	7.5	-4.6	**2.9**	1.9	8.9	0.4	4.1	7.6	3.1
XI	**3.3**	**3.4**	**5.3**	5.9	3.7	**2.8**	1.8	8.3	0.4	3.9	7.5	2.9
XII	**3.5**	**3.4**	**7.4**	5.8	12.3	**2.6**	1.8	8.0	0.5	3.,4	7.4	2.2
I-XII 2008	**4.2**	**6.1**	**8.4**	9.9	4.7	**2.3**	0.5	6.4	-0.8	4.4	9.9	2.9
I-XII 2009	**3.5**	**4.1**	**5.5**	10.4	-6.9	**2.7**	1.3	9.4	-0.4	4.3	8.1	3.2
	Share in CPI (in p.p.)											
2008 I	**4.0**	**2.0**	**1.0**	0.4	0.6	**1.0**	0.1	0.3	-0,2	0.9	0.5	0.4
II	**4.2**	**1.9**	**1.3**	0.7	0.5	**1.1**	0.1	0.3	-0,2	0.9	0.5	0.4
III	**4.1**	**1.8**	**1.2**	0.8	0.4	**1.2**	0.2	0.3	-0,1	1.0	0.6	0.4
IV	**4.0**	**1.7**	**1.0**	0.8	0.2	**1.2**	0.2	0.3	-0,1	1.0	0.6	0.5
V	**4.4**	**1.8**	**1.3**	1.1	0.3	**1.2**	0.2	0.3	-0,2	1.1	0.6	0.5
VI	**4.6**	**1.9**	**1.4**	1.1	0.3	**1.3**	0.2	0.3	-0,2	1.1	0.6	0.5
VII	**4.8**	**2.0**	**1.5**	1.1	0.4	**1.3**	0.1	0.3	-0,2	1.2	0.6	0.6
VIII	**4.8**	**1.7**	**1.5**	1.2	0.3	**1.6**	0.1	0.4	-0,3	1.5	0.6	0.9
IX	**4.5**	**1.3**	**1.4**	1.3	0.2	**1.7**	0.2	0.4	-0,2	1.5	0.6	0.9
X	**4.2**	**1.0**	**1.5**	1.4	0.1	**1.7**	0.2	0.4	-0,2	1.5	0.6	0.9
XI	**3.7**	**0.8**	**1.2**	1.5	-0.3	**1.7**	0.2	0.5	-0,2	1.5	0.6	0.9
XII	**3.3**	**0.8**	**0.9**	1.5	-0.7	**1.6**	0.2	0.5	-0,3	1.5	0.6	0.8
2009 I	**2.8**	**0.8**	**0.7**	1.6	-0.8	**1.3**	0.1	0.4	-0,4	1.3	0.5	0.8
II	**3.3**	**0.8**	**1.0**	1.6	-0.5	**1.4**	0.1	0.5	-0,3	1.3	0.5	0.8
III	**3,6**	**1.2**	**1.0**	1.5	-0.5	**1.5**	0.2	0.5	-0,3	1.3	0.5	0.8
IV	**4.0**	**1.4**	**1.0**	1.5	-0.5	**1.6**	0.3	0.5	-0,2	1.3	0.5	0.8
V	**3.6**	**1.3**	**0.7**	1.2	-0.5	**1.6**	0.4	0.5	-0,2	1.3	0.5	0.7
VI	**3.5**	**1.2**	**0.8**	1.2	-0.4	**1.6**	0.4	0.6	-0,1	1.2	0.5	0.7
VII	**3.6**	**1.0**	**0.8**	1.1	-0.3	**1.8**	0.6	0.7	-0,1	1.2	0.5	0.7
VIII	**3.7**	**1.1**	**0.8**	1.1	-0.3	**1.8**	0.5	0.6	0,0	1.2	0.5	0.7
IX	**3.4**	**0.9**	**0.8**	1.0	-0.2	**1.7**	0.6	0.5	0,0	1.2	0.5	0.7
X	**3.1**	**0.7**	**0.6**	0.8	-0.2	**1.7**	0.6	0.5	0,1	1.1	0.5	0.7
XI	**3.3**	**0.8**	**0.8**	0.7	0.2	**1.7**	0.6	0.5	0,1	1.1	0.5	0.6
XII	**3.5**	**0.8**	**1.1**	0.7	0.5	**1.5**	0.6	0.5	0,1	1.0	0.5	0.5
I-XII 2008	**4.2**	**1.6**	**1.3**	1.1	0.2	**1.4**	0.2	0.4	-0,2	1.2	0.6	0.6
I-XII 2009	**3.5**	**1.0**	**0.8**	1.2	-0.3	**1.6**	0.4	0.5	-0,1	1.2	0.5	0.7

Source: GUS data, NBP calculations.

Appendix 3

Balance of payments[16]

In 2009 the current account deficit of the balance of payments amounted to EUR 5.0 billion (as compared to EUR 18.3 billion in 2008). The current account deficit to GDP ratio went down from 5.1% in 2008 to 1.6% in 2009. The improvement in the current account balance was primarily driven by a reduction in the trade deficit in goods. In turn, the increase in the deficit in income and decline in current transfers surplus had the opposite effect.

In line with preliminary GUS estimates, the deficit in the Polish foreign trade fell down from EUR 26.2 billion in 2008 to EUR 8.7 billion in 2009.[17] The greatest impact on lowering the negative trade balance was exerted by the occurrence of positive balance in the trade with EU-15 countries[18] (EUR 6.9 billion compared to a deficit of EUR 3.6 billion in 2008). Moreover, the negative trade balance with Russia and China decreased. On the other hand, the lowering of the positive balance in trade with Central and Eastern European countries had the opposite effect.

The decline in trade volumes was a global phenomenon in 2009 – according to the estimates of the Netherlands Bureau for Economic Policy Analysis (CPB), the volume of global trade fell by 12.9% as compared to 2008. The deepest slump was recorded in the first half of the year and in the following months the decline decelerated, which was connected with the introduction of stimulus packages in many economies. In the final months of 2009, due to the growing demand, primarily in the emerging economies of Asia, the volume of global trade edged up slightly.

The value of Polish exports in 2009 fell by 17.1%. The smallest reduction (of 13.8%) was recorded in exports to EU-15 countries, which reflected this region's relatively weakest decline in economic activity amongst Poland's main trading partners (EU-15 GDP contracted by 4.3%). The value of Polish exports of consumer goods to the EU-15 rose by 0.6% in comparison to 2008 (including an increase in passenger cars of 13.9%), which was connected with measures taken by governments of many EU-15 countries aimed at halting the downwards trend of households' spending and also with the strong depreciation of the zloty exchange rate against the euro observed until February 2009. However, the reduction in inventories combined with a strong dip in exports of EU-15 countries led to a considerable reduction of their demand for intermediate goods. This was reflected in decreased exports of this most important category of goods – accounting for 55% of the value of Polish exports to the EU-15 – which fell by over 25% as compared to 2008.

The decline in exports to Central and Eastern European (CEE) countries, which in 2008 accounted for 16.2% of Polish exports, proved considerably deeper (a drop of 22.6% in comparison to 2008). This was

[16] If not specified otherwise, all the data discussed in Appendix 3 refer to values denominated in euros.

[17] This resulted from a considerably deeper decline in the volume of imports (of 16.0%) than exports (of 9.3%). The drop in the value of turnover was additionally deepened by a strong decline in transaction prices expressed in euros (by 12.2% in imports and 8.6% in exports).

[18] I.e. those countries which had formed the European Union before it was enlarged in 2004.

not only related to a stronger slump in economic activity in the region as compared to the EU-15 (GDP in nine CEE countries[19] decreased in 2009 by the total of 7.2%), but also to a marked reduction of the scale of corporate trade among branches of foreign enterprises, which is strongly affected by the demand in EU-15 countries and exports to non-EU markets. In consequence, the decline in the value of Polish exports of consumer and investment goods to CEE countries was considerably deeper than the drop in total exports of those goods to EU-15 countries, while the scale of the decline in intermediate goods exports was very similar to that of exports to EU-15 countries.

Amongst Poland's main trading partners the deepest drop in exports (of almost 40%) was observed in the trade with the countries of the Commonwealth of Independent States, which in 2008 accounted for 10.5% of Polish exports. This was connected with the fact that the region was hit most strongly by the global financial crisis: Russia's GDP lowered in 2009 by 7.9% and in Ukraine by as much as 15.1%.

In 2009 the value of Polish imports contracted by 26.3%. The scale of Polish import decline was greater than in the case of most other EU countries (despite the fact that Poland was in 2009 the only country in the European Union which recorded GDP growth), which was connected with the depreciation of the zloty exchange rate observed from August 2008 to February 2009. In comparison to other countries the scale of import decline in the category of consumer goods was the largest. In turn, the scale of decline in intermediate goods imports was similar to those in other EU countries. This decline resulted, on the one hand, from lowering demand of Polish enterprises from the export sector and, on the other, from lower commodity prices than in 2008 (in particular the prices of crude oil). The strongest drop in imports (of over 30%) was recorded in the category of investment goods.

Until February 2009 the exchange rate of the zloty had weakened markedly but starting from March it was gradually strengthening. In 2009 Q1, the nominal zloty exchange rate depreciated by 13% against the euro and 20% against the US dollar, while in 2009 Q2, Q3 and Q4 it appreciated by 5%, 6% and 3%, respectively, against the euro and 10%, 9% and 1% against the US dollar. In the whole of 2009 the nominal exchange rate of the zloty appreciated against the euro and the US dollar, respectively, by 2% and 4%. The real effective exchange rate of the zloty deflated by the index of unit labour cost in manufacturing (ULC)[20] in 2009 Q1 weakened by 14%, in Q2 remained virtually unchanged and in the second half of the year appreciated by approx. 2.5%. In the whole of 2009 the ULC-deflated real effective exchange rate depreciated by 12%.

In 2009 financial indicators of the external equilibrium in the Polish economy improved. The lowered trade deficit in goods had a positive impact on the ratios of current account balance to GDP and current and capital account balance to GDP. The reduction of current account deficit in 2009 was also supported by a rise in the positive balance of capital account due to the growing utilisation of EU funds classified in this account. Although the global financial crisis contributed to a decreased inflow of direct investment, their ratio to current account deficit amounted to 124% (as compared to 44% in the preceding year).

[19] The CEE region includes: Bulgaria, the Czech Republic, Estonia, Lithuania, Latvia, Romania, Slovakia, Slovenia and Hungary.

[20] One measure to assess changes in the competitive position of producers in international markets is an index reflecting production costs. Moreover, as most of trade exchange involves products of manufacturing industry, an adequate competitiveness measure is the real exchange rate deflated by the unit labour costs precisely in manufacturing industry. The calculations made use of quarterly ULC data for 2009, the data for 2009 Q4 are estimates.

Table A.3. 1

Selected warning indicators

Warning indicator	2004	2005	2006	2007	2008	2009
Current account balance / GDP	-4.0%	-1.2%	-2.7%	-4.7%	-5.1%	-1.6%
Current and capital account balance / GDP	-3.5%	-0.9%	-2.1%	-3.6%	-4.0%	0.0%
Balance on trade in goods / GDP	-2.2%	-0.9%	-2.0%	-4.0%	-4.9%	-1.0%
Current account balance / current account inflows	-9.4%	-2.9%	-5.9%	-10.1%	-11.2%	-3.6%
Direct investment / current account balance	116.1%	184.4%	115.8%	90.0%	43.6%	123.5%
(Current account balance + capital account balance + direct investment) / GDP	1.1%	1.4%	1.0%	0.6%	-1.7%	2.1%
Foreign debt / GDP	46.5%	45.9%	47.3%	51.0%	47.7%	63.5%
Foreign debt servicing / exports of goods and services	35.4%	32.3%	29.7%	35.0%	35.6%	-
Official reserve assets expressed in terms of monthly imports of goods and services	4.0	4.7	3.9	3.9	3.3	5.5

Source: NBP calculations.

Appendix 4

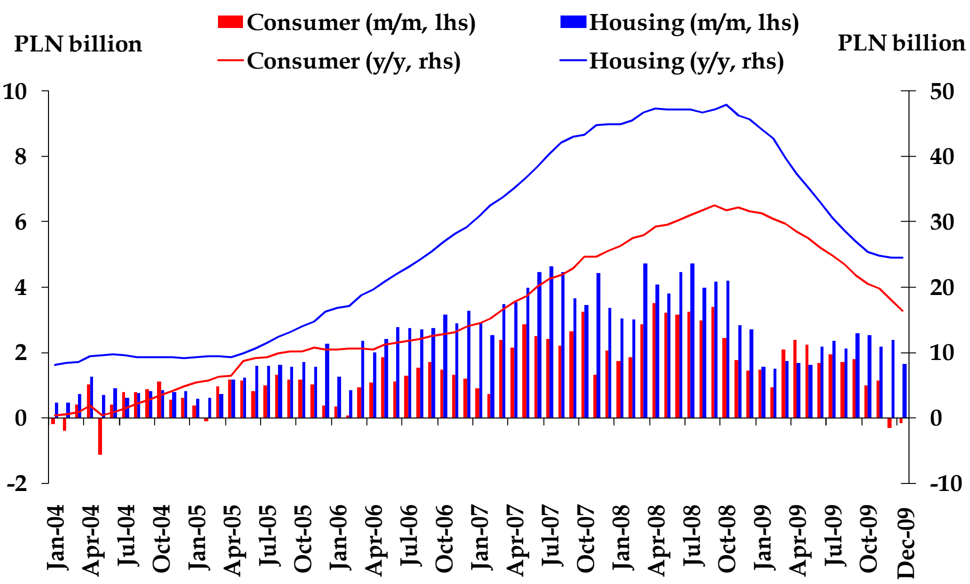
Money and credit[21]

Loans to households

In 2009 the nominal value of households' bank debt increased by PLN 43.8 billion to approx. PLN 412 billion, while in the whole of 2008 the growth in households' bank debt amounted to PLN 113.8 billion. The growth rate of household loans decreased to 12.4% y/y in December 2009 (against 31.7% y/y in December 2008).

Housing loans which saw the fastest growth in 2008, declined to 12.5% y/y in December 2009. (as compared to 39.1% in December 2008). Yet, the average monthly growth in housing loans in the second half of 2009 increased to PLN 2.4 billion as compared to PLN 1.7 billion in the first half of 2008, which may indicate an improvement in the situation in this market.

Figure A.4.1
Year-on-year and month-on-month changes in household loans.



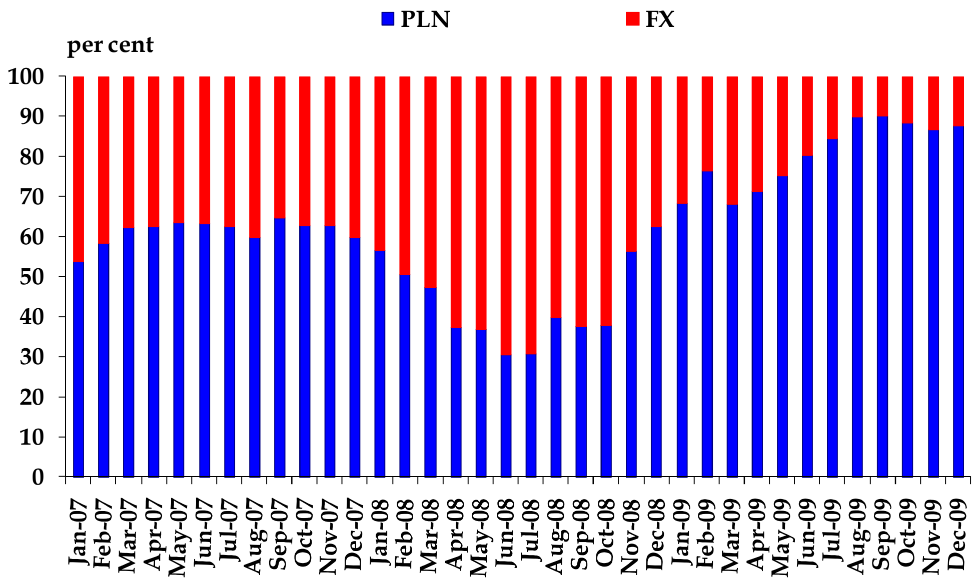
Source: NBP data.

[21] If not indicated otherwise, the growth rates presented below refer to figures adjusted for the impact of fluctuations of the exchange rate of the zloty against the main currencies.

In 2009 banks gradually adjusted their housing loan policy to the improving economic climate. Their capital situation also improved, which additionally contributed to the easing of the credit policy. As suggested by the results of the conducted surveys[22], in 2009 the number of banks tightening their housing loan terms declined steadily, and starting from 2009 Q3 some banks decided to ease them.

In 2009 as a result of the limited availability of housing loans denominated in Swiss francs, households used mainly domestic currency loans to finance their real estate purchases. In the past few months of 2009 the share of housing loans denominated in PLN in newly granted loans was close to 90%.

Figure A.4.2
Currency structure of the newly granted housing loans to households.



Source: NBP data.

Calculations were based on the information obtained for interest rate reporting purposes from the sample of 20 selected banks whose share in the market of non-financial sector loans accounts for approx. 75%.

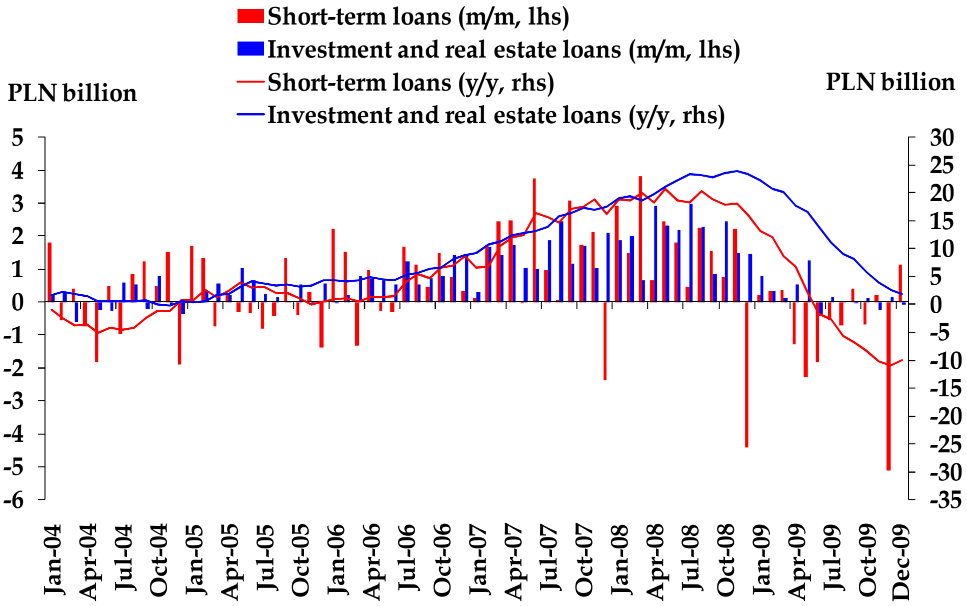
The growth in consumer loans in 2009 declined to 11.9% y/y in December (as compared with 30.8% y/y in December 2008). The average monthly growth in consumer loans in the first half of 2009 amounted to PLN 1.8 billion, and in the second half of 2009 to PLN 1.2 billion, which was connected with the progressing tightening of loan granting criteria caused by worse economic situation and increased share of classified loans in the portfolios of financial institutions.

Loans to enterprises

The nominal value of corporate debt to banks decreased in 2009 by PLN 8.7 billion to approx. PLN 209 billion (in 2008 corporate debt growth amounted to approx. PLN 48 billion). Growth in corporate loans decreased to -3.6% y/y in December 2009 (as compared with 24.2% y/y in December 2008). Observed decline in lending was due to the tightening of loan terms and increased uncertainty about the future economic situation.

[22] Senior loan officer opinion survey on bank lending practices and credit conditions (4th quarter 2009), www.nbp.pl

Figure A.4.3
Year-on-year and month-on-month changes in loans to enterprises.



Source: NBP data.

Deceleration in lending was largely the result of a fall in short-term loans (-10.6% y/y in December 2009). An important factor limiting the demand for short-term loans in the last few months of 2009 was the improvement in the liquidity situation of enterprises. The growing sales results recorded in this period and the effects of the previously implemented restructuring allowed economic entities for gradual adjustment to the still limited supply of credit facilities resulting from the banks' tight credit policy. As suggested by the survey studies[23], the tightening of loan criteria affected mainly loans to small and medium-sized enterprises. The major reason behind tightening the loan granting criteria was banks' unfavourable assessment of the outlook for economic situation. On the other hand, the role of banks' capital situation as the factor limiting lending decreased gradually.

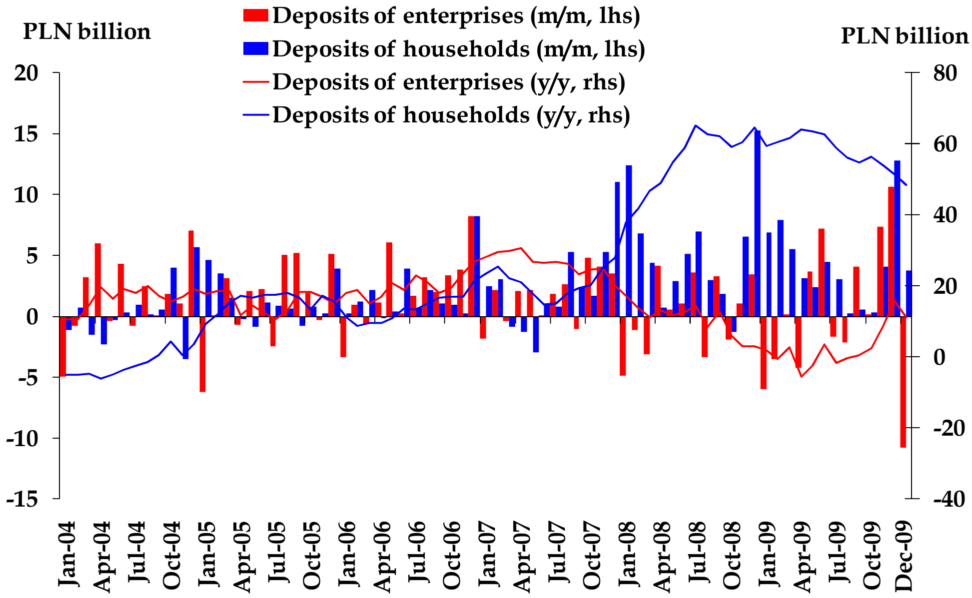
2009 saw also a deceleration in the growth of long-term corporate loans : in the segment of real estate loans this growth declined to 3.7% y/y in December 2009 (as compared to 30.1% y/y in December 2008), and in the segment of investment loans - to 1.5% y/y (as compared to 29.7% y/y). Limited lending was the effect of low corporate investment activity caused by the economic slowdown. Gradual investment completion process was not accompanied by of new projects of similar scale as in the pervious years.

Deposits

Gradual rebound in economic activity in the second half of 2009 - especially in manufacturing - was coupled with an improvement in enterprises liquidity situation. Due to the decline in investment activity and the concurrent increase in income from sales of enterprises, the value of corporate deposits increased in the second half of 2009 by PLN 18.5 billion as compared with PLN 6.2 billion a year before. In the whole of 2009 this growth amounted to PLN 16 billion as compared to PLN 3 billion in 2008. As a result, the growth in corporate assets in bank accounts, after reaching its minimum in April 2009 (-3.7% y/y), increased to 10.6% y/y at the end of December 2009.

[23] Senior Loan Officer Opinion Survey on Bank Lending Practices and Credit Conditions (4th Quarter 2009), www.nbp.pl

Figure A.4.4
Year-on-year and month-on-month changes in bank deposits of households and enterprises.



Source: NBP data.

Increase in liquid assets in bank accounts mitigated the unfavourable impact of the limited availability of short-term loans to finance enterprises' activities. Moreover, the improvement in the financial situation in this sector translated into a rise in the estimated percentage of approved loan applications, which at the end of 2009 amounted to approx. 80%, while at the beginning of the year it was below 70%.[24]

The majority of 2009 saw a falling trend in the growth of household deposits, which decreased to 15.2% y/y in December 2009 (as compared to 24.2% y/y in December 2008). The observed slowdown in the growth of bank deposits was largely caused by the statistical base effect, connected with the change in the structure of household financial assets observed in 2008.

Monetary aggregates

In 2009 the growth of M3 aggregate declined to 8.3% y/y in December as compared with 17.1% y/y in December 2008. Reduced scale of monetary expansion was largely the result of developments in the corporate and household loan market. Along with the gradual limiting of the decline in debt growth - mainly in the segment of household loans - in the second half of 2009, the annual growth of M3 broad money stabilized at approx. 7-8%[25]. The decline in the growth of household deposits was counterbalanced with higher increase in assets deposited in corporate accounts.

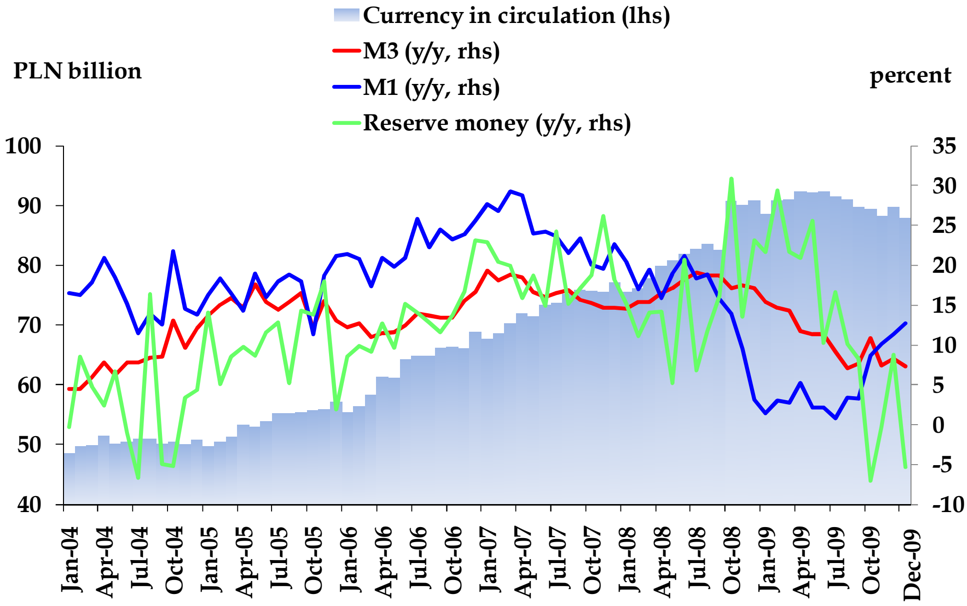
In 2009 the growth of M1 aggregate increased to 11.3% y/y in December (as compared to 3.1% y/y in December of the previous year), which was the result of a relatively high increase in assets in current accounts of households (by PLN 41.4 billion) and enterprises (by PLN 4.7 billion). The growth of less liquid money components (M3–M1) fell to 4.9% y/y in December 2009 as compared with 37.9 y/y in December 2008. The observed changes were largely the result of the statistical base effect, connected with a high

[24] Information on the Condition of the Enterprise Sector, Including the Economic Climate in 2010 Q1., www.nbp.pl.

[25] An exception was October when money supply significantly deviated from the trend as a result of the increase in non-monetary deposits of financial institutions by PLN 13 billion. This phenomenon was connected with the individual and institutional investors depositing their funds on brokerage accounts, intended for the purchase of shares of Polska Grupa Energetyczna. In the case of households funds intended for the purchase of shares were largely obtained from loans for the purchase of securities (not classified as consumer loans). After reduction of more than 90% of orders, funds returned to the ordering parties.

rise, in 2008, in household savings in fixed-term deposits up to 2 years, caused by changes in the structure of their financial assets.

FigureA.4.5
M3 and M1 monetary aggregates, currency in circulation and reserve money of the central bank.



Source: NBP data.

Appendix 5

Minutes of Monetary Policy Council decision-making meetings held in 2009

Minutes of the Monetary Policy Council decision-making meeting held on 27 January 2009

During the meeting the Monetary Policy Council discussed the outlook for inflation in the context of the past, current and, primarily, anticipated economic situation.

The discussion at the meeting focused on the outlook for economic growth and inflation abroad and in Poland, zloty exchange rate developments and credit market conditions.

The Council paid a lot of attention to the domestic economic growth. It was pointed out that the recession in the external environment of the Polish economy and the accompanying decline in foreign demand for Polish goods had increasing impact on the activity in the domestic economy which is corroborated, among other things, by further fall in industrial output in December. Considerable reduction in demand, in particular for the products of exporting enterprises, is also signalled by the results of the NBP business climate surveys. It was emphasized that deteriorating outlook for sales translated into investment dampening and, consequently, contributed to faster than previously expected slowdown in GDP growth.

While discussing the outlook for economic growth in Poland it was noted that it was largely dependent on the foreign economic situation. In this context, the deepening recession in the United States and in the euro area was pointed out together with a risk of further downward revisions of economic growth forecasts for Poland's main trading partners. The risk is related to the negative impact of the global financial crisis on the situation in the labour markets in those countries and, consequently, on households' income and consumption. The protracted recession in the external environment of the Polish economy may delay the improvement in the domestic business activity relative to previous assessments. Some members of the Council emphasized that this might translate into even stronger curbing of the investment activity of enterprises; consequently, the contribution of investment to GDP growth in 2009 might be negative. It was argued that economic slowdown in Poland, through decreasing labour demand and declining wage growth, would contribute to limiting households' consumption growth. Another factor curbing domestic demand may be a reduction in general government expenditure, which – if concerning investment outlays – will additionally negatively affect GDP growth in the longer term. Some members of the Council argued that implementation of projects financed with EU funds by local government entities would contribute to maintaining the growth of the general government investment expenditures.

While discussing inflation developments, attention was paid to the slightly stronger than expected decline in inflation in December 2008 to 3.3%, i.e. below the upper limit for deviations from the NBP's inflation target. It was indicated that the decrease in inflation had been largely driven by falling fuel prices, yet, it was emphasized that core inflation had also declined.

While addressing the outlook for inflation, it was assessed that in the coming months inflation should gradually decline to the inflation target (2.5%). At the same time, some members of the Council emphasized that considerable depreciation of the zloty exchange rate observed in the past few months and possible further raises in administered prices would be factors conducive to price increases. In this context, attention was paid, among other things, to possible increases in 2009 of excise tax on fuels aimed at compensating some of the decline in government budget revenues, which would translate into higher prices. Other members of the Council argued that the pass through of exchange rate changes into inflation might be limited amidst economic slowdown, and raises in administered prices are beyond the direct impact of monetary policy. Those members also emphasized that rises in administered prices limited households' purchasing power, which in an economic downturn would additionally curb their demand. During the discussion attention was also paid to uncertainty relating to changes in inflation in the near term connected with commodity price developments in the global markets and with the GUS changing the weights in the households' consumption basket.

The majority of the Council members stressed that amidst declining inflationary pressure, monetary policy should focus more on counteracting excessive slowdown of economic growth, thus contributing to maintaining price stability in the medium term. In the opinion of some Council members, this justified a significant reduction of the NBP interest rates so that – considering the time lags in the transmission mechanism – the effects of such measures could translate, as soon as possible, into strengthening the domestic demand. Some Council members were of the opinion that the easing of the monetary policy should also be accompanied by the implementation of the government loan guarantee system supporting economic growth.

While discussing the exchange rate developments, it was emphasized that the recently observed considerable depreciation of the zloty exchange rate resulted mainly from the increase in risk aversion in the global financial markets leading to capital outflow from the emerging markets, which was reflected in a rise of bond yields and CDS rates. Some Council members pointed out that the scale of zloty depreciation was higher than that of other currencies of the Central and Eastern Europe despite interest rates in Poland had been lowered to a lesser extent than in other countries of the region. In their opinion, this meant that the impact of the interest rate disparity on the exchange rate had recently been limited. At the same time, those Council members indicated that under current circumstances the outlook for economic growth in Poland and the resulting situation of the public finance sector were of higher importance for the zloty exchange rate developments. In the opinion of some Council members, a strong reduction of interest rates aimed at counteracting excessive economic slowdown might therefore contribute to the strengthening of the zloty exchange rate in the medium term. Additionally, they argued that consolidating lowering the NBP interest rates to the level consistent with both maintaining price stability and supporting economic activity, would be conducive to fading of expectations for further NBP interest rates reductions, which should limit the pressure for zloty depreciation. Other members of the Council assessed, however, that too strong lowering of the NBP interest rates might boost expectations of financial market participants as to overall scale of further interest rates reductions. Moreover, they pointed out that the too rapid easing of the monetary policy by the Council might be perceived as a sign of considerable deterioration in the outlook for Polish economy, and thus contribute to further depreciation of the zloty exchange rate. Those Council members also emphasized that the domestic foreign exchange market was at present relatively shallow bringing about the risk of further strong zloty depreciation which should be accounted for while deciding on the scale of the NBP interest rates reduction.

While analyzing the factors affecting exchange rate developments specific for the Polish economy, some members of the Council argued that the zloty depreciation might have been strengthened by Polish enterprises having to conclude previously signed options contracts by purchasing foreign currency at the market. On the other hand, some Council members pointed out that declarations of the Government about its commitment to meet the timetable of Poland's euro area accession could have contributed to limiting the scale of zloty depreciation. In this context, it was noted that a possible postponement of euro adoption might have a negative impact on zloty exchange rate developments.

While discussing the impact of zloty depreciation on the economy it was indicated that exchange rate depreciation negatively affected the financial condition of enterprises engaged in options contracts and increased the zloty value of debt of economic entities (enterprises, households and public finance sector) denominated in foreign currencies, which would be conducive to curbing their expenditures. Moreover, it was pointed out that rising import prices driven by weaker exchange rate would – through higher costs of imported commodities and intermediate goods – negatively affect the economic activity in Poland. On the other hand, it was noted that improved competitiveness of Polish products on foreign markets, related to zloty depreciation, would limit the negative impact of recession in the external environment on Polish exports. It was argued that depreciation would also lead to rising zloty value of EU funds which – combined with a possible fall in prices of construction and assembly works, signaled by the results of the GUS business condition surveys – might constitute a factor supporting the implementation of investment projects financed with EU funds. It was emphasized that depreciation bringing about a rise in the prices of imported goods, would favour the growth of domestic demand for domestic goods to the detriment of imported goods which would contribute to reducing the imbalance of Polish trade.

While analyzing the credit market situation it was pointed out that although monetary data had not as yet signaled strong slowdown in credit growth, in 2008 Q4 banks considerably tightened their lending policy and some of them retreated from granting housing loans denominated in foreign currencies. In this context, some Council members argued that decisions about lowering the NBP interest rates were of considerable importance for bank lending as they contributed to decreasing the costs of zloty denominated loans. It was also pointed out that since the beginning of the process of the NBP interest rates lowering in November 2008, the 3-month WIBOR rate decreased by more than 100 basis points which confirmed that despite market interest rates remaining at an elevated level relative to the reference rate, the Council's decisions had a considerable impact on market interest rates.

While analyzing the situation in the banking sector it was pointed out that offering high interest rates on term deposits was accompanied by rising loan margins by banks. Some Council members argued that by the time the previously opened deposits terminate, banks might tend to maintain the cost of newly granted loans at an increased level even despite reduction in the NBP interest rates. Moreover, in the opinion of those Council members too deep lowering of the interest rates through decreasing banks' incomes from servicing previously granted loans – provided their interest depends directly on interest rates in the interbank market – might result in deteriorating financial results of banks and, consequently, constitute a factor limiting lending. Those members argued that easing the monetary policy should be implemented in such a pace as to allow banks to gradually adjust to changing business conditions.

While discussing the level of interest rates it was pointed out that considering the rapid downturn in the economy and decline in inflationary pressure many central banks had recently continued to ease their monetary policy. Some members of the Council argued that provided there were no or small reductions in the interest rates in Poland, this would lead to a rise in interest rate disparity. Other Council members noted, however, that at present it was difficult to assess the impact of the considerable monetary policy easing introduced by major central banks on the economy and financial system stability; therefore, changes in interest rates in other countries should not be followed automatically.

While discussing the decision on interest rates, the Council assessed that the signs of stronger and faster than expected slowdown in the global and Polish economic activity combined with further decline in inflationary pressure spoke of lowering the NBP interest rates. In the opinion of some Council members reduction of the interest rates should be implemented gradually and its scale at the January meeting should be smaller than in December 2008, especially in view of the easing of the monetary conditions resulting from considerable depreciation of the zloty exchange rate. According to those members of the Council, too strong lowering of the NBP interest rates at the current meeting posed a risk of further depreciation of the exchange rate which favoured gradual adjustment of interest rates. Moreover, those members pointed out that too strong lowering of interest rates at the current meeting might excessively boost market expectations as to the total scale of interest rate reduction. Other members of the Council emphasized, however, that in view of the fast deteriorating outlook for domestic economic growth, it was necessary to lower, as soon as possible, the interest rates to the level supporting the economic activity in Poland. In the opinion of those Council members considerable reduction of the NBP interest rates would counteract limiting of banks' lending, and consequently, too strong decline in domestic demand. They argued that the Council's decisions aimed at supporting GDP growth in view of the falling inflationary pressure might lead to strengthening of the zloty exchange rate. The Council also discussed the scale of possible further lowering of the NBP interest rates.

Motions to lower the NBP interest rates by 25 basis point, by 50 basis points and by 75 basis points were put forward. The motion to lower the NBP interest rates by 75 basis points was passed, therefore the motions to lower the NBP interest rates by 25 basis points and by 50 basis points were not put to voting. The Council decided to lower the NBP interest rates to the level: the reference rate to 4.25%, the lombard rate to 5.75%, the deposit rate to 2.75% and the rediscount rate to 4.50%.

Minutes of the Monetary Policy Council decision-making meeting held on 25 February 2009

During the meeting the Monetary Policy Council discussed the outlook for inflation in the context of the past, current and, primarily, anticipated economic situation.

The discussion at the meeting focused on the zloty exchange rate developments, the outlook for economic growth in Poland and abroad and credit market conditions. The Council discussed the influence of those factors on the future inflation developments in Poland in view of the February projection of inflation and GDP.

The Council paid a lot of attention to exchange rate developments. It was pointed out that the currencies of Central and Eastern Europe, including the zloty, had weakened significantly since the previous meeting of the Council. It was emphasized that the depreciation of those currencies was triggered, inter alia, by the deteriorating economic outlook for the countries of the region, including concerns over macroeconomic stability of some of those countries. An increase in the global aversion to risk, resulting in capital outflow from the emerging markets, fears of financing large trade deficits in some countries, and foreign exchange transactions by short-term investors were also considered as factors conducive to the depreciation of the currencies of the region, including the zloty. It was pointed out that the scale of zloty depreciation resulting from a relatively larger liquidity of the Polish foreign exchange market did not reflect the comparatively favourable condition and outlook for economic growth in Poland. Some Council members pointed out that the zloty depreciation might have been additionally strengthened by demand for foreign currency of Polish enterprises engaged in option contracts.

The Council also discussed the impact of changes in the NBP interest rates on the zloty exchange rate developments. Some members of the Council argued that in a period of high exchange rate volatility a considerable interest rates reduction may increase the risk of further depreciation of the exchange rate. Other Council members emphasized that the impact of the interest rate disparity on the zloty exchange rate had recently been limited. They pointed out that the economic outlook for Poland constitutes the factor influencing the zloty exchange rate developments. According to those members of the Council, easing the monetary policy will counter the excessive deterioration of economic growth and, therefore, it may be a factor conducive to strengthening of the zloty exchange rate in the medium term.

While analyzing the impact of the zloty depreciation on the economy, it was pointed out that the weakening of the exchange rate contributes to reducing the domestic demand by increasing households' and enterprises' expenditure on servicing financial obligations denominated in foreign currencies. On the other hand, it was pointed out that the zloty depreciation improves the competitiveness of Polish exports, and, contributing to the rise in prices of imported goods, is conducive to the increase in competitiveness of Polish producers in the domestic market. It was also indicated that the zloty exchange rate depreciation leads to a rise in the zloty value of EU funds.

While discussing the impact of the zloty depreciation on the credit market situation, some Council members indicated that as a result of the weakening of the Polish currency the zloty value of bank assets denominated in foreign currencies increases. Without raising the capital it may lead to a decrease in banks' capital adequacy ratios and, in consequence, may be conducive to further reduction of lending.

While analyzing the impact of the zloty depreciation on the budget deficit and public debt, the Council members indicated that the exchange rate depreciation increases public spending on contributions to the European Union budget and on servicing the foreign debt. Some members of the Council assessed that a significant zloty depreciation may limit the foreign investors willingness to finance the borrowing needs of the state budget. Additionally, some Council members pointed out that further depreciation of the exchange rate may cause long-term investors, holding debt instruments issued by the Polish government, to hedge against the foreign exchange risk by making transactions in the forward market, which may strengthen the zloty depreciation as a result of arbitrage between the spot and the forward market. Other Council members, however, pointed to a relatively small share of foreign debt in the total debt of the general government sector and the dominant share of domestic investors in financing the borrowing requirements of the state. According to those Council members an increase in the borrowing needs of the governments of the developed countries resulting from undertaken counter-crisis measures is a more important factor than the zloty depreciation in limiting the possibility of external financing of the budget deficit and public debt in Poland, as well as in other developing countries.

While addressing the situation in the external environment of the Polish economy, the deepening recession in developed economies (the United States, the euro zone, Japan) and the increasing slowdown in economic growth in developing countries was noted. It was argued that the worsening outlook for economic growth in China may put the expected improvement in global economic performance at risk. It was also indicated that some of the central banks had continued to ease their monetary policy in the recent period. Some members of the Council pointed out, however, to a change in monetary policy stance of the central banks of Central and Eastern Europe, which was due to the recent depreciation of their currencies.

While discussing the outlook for domestic economic growth, it was pointed out that the decrease in industrial output and orders in January 2009, as well as worsening indicators of economic climate confirm that the activity in the Polish economy is deteriorating further. Moreover, it was noted that reduced lending by banks, increase in the burden for economic agents due to the previously incurred foreign-currency-denominated liabilities as well as increases in administered prices limiting the purchasing power of households will be conducive to decreasing domestic demand. The negative influence of a significant deterioration of economic outlook on corporate investment was also noted. It was indicated that further decrease in demand for Polish exports, which is connected with the deepening recession experienced by Poland's major trade partners, will contribute to a further deterioration of economic growth in Poland. The impact of the decrease in foreign demand for Polish exports may be cushioned by the depreciation of the zloty exchange rate. Some Council members assessed that the scale of the economic slowdown in Poland may be larger than forecasted in the February NECMOD projection.

The meeting also addressed the influence of the NBP interest rates reductions on domestic demand and on the situation in the banking sector as well as in the credit market. It was indicated that interest rate cuts ease the burden of servicing zloty-denominated loans of economic agents, which limits the risk of debts being unsettled by these agents, and, in consequence, acts towards increasing the stability of the financial system. It was also emphasized that lowering the interest rates leads to an increase in purchasing power of the these agents, which may contribute to an increase in domestic demand. Some Council members pointed, however, to the uncertainty surrounding the impact of lower interest rates on the domestic demand in the context of the credit market distortions. They indicated that the NBP interest rate cuts made in November and December 2008 – despite a significant drop in the 3M WIBOR rate – were accompanied by a smaller decrease in interest on corporate loans, only a slight decrease in interest on housing loans and a small increase in interest on consumer loans. Those Council member argued that the reductions of the NBP interest rates decrease the banks' incomes from servicing the previously granted loans, which – coupled with a relatively high interest rate on deposits – may induce banks to increase margins on newly granted loans. According to some Council members, too low competition in the Polish banking sector may be a factor limiting the influence of the reductions of the NBP interest rates on the interest on loans.

Some members of the Council indicated that limited demand for loans from economic agents related to negative outlook for economic growth may constitute a barrier to the credit growth. They emphasized that the decrease in creditworthiness of economic agents related to the drop in value of their assets and the increase in the burden due to the incurred foreign-currency-denominated loans may also be a factor limiting the credit growth.

The Council discussed the possibility of modifying the employed monetary policy instruments in order to improve the liquidity situation in the banking sector and prevent extensive reduction of banks' lending, including the potential extension of maturity of repo transactions, lowering the reserve requirement rate and reducing the deposit rate to a greater extent than other NBP interest rates. The Council also debated on the issues connected with employing the instruments directly influencing the zloty exchange rate in the context of developments in the foreign exchange market.

While addressing the outlook for inflation, some Council members estimated that in the nearest future CPI and core inflation will remain at elevated levels, which also is indicated by the February NECMOD inflation projection. Those members argued that substantial rise in administered price and current strong depreciation of the zloty exchange rate will be conducive to increasing inflation. Other members pointed out that the February NECMOD inflation projection points to an increase of the negative output gap leading to a considerable drop in the inflationary pressure in the monetary policy transmission horizon. Those members also pointed to a decreasing wage pressure in the Polish economy. According to those Council members, the risk of permanent overshooting the inflation target due to the zloty depreciation is small in the conditions of significantly weakening demand. Those members assessed that – despite a strong depreciation of the zloty exchange rate – the core inflation in 2009 Q1 may be lower than forecasted in the February inflation and GDP projection. Moreover, they pointed out that in February 2009 the inflation expectations of households and bank analysts declined. At the meeting, the uncertainty related to inflation developments in the nearest period resulting from accounting for the changes in the consumption basket of households by GUS was also brought up.

The Council also discussed the prospects of fulfilling the Maastricht price stability criterion by Poland. Some Council members indicated that due to a more rapid drop in current headline inflation in most European Union countries than in the Polish economy, in the nearest future the 12-month moving average HICP inflation in Poland, taken into account when assessing the compliance with the price stability criterion, may still exceed the reference value. Other Council member pointed out, however, that according to the February inflation and GDP projection in the NECMOD model it may be expected that the CPI inflation will decrease to a low level over the monetary policy transmission horizon, and, thus, Poland will be complying with the price stability criterion in the medium term.

While analyzing the influence of fiscal policy on the economy, some Council members pointed out that the scale of reductions of public spending in 2009 announced by the government is larger than assumed in the February inflation and GDP projection. Those members indicated that the change in the way of financing some infrastructural expenditure, which shifts the expenses incurred for this purpose by the central budget to other units of the general government sector, may – should difficulties with acquiring sufficient funds on the market arise – lead to the refrainment from a part of these expenditures. They also emphasized that a more severe economic slowdown than the one currently expected by the government, and consequently lower-than-expected budget revenues, may lead to further curbing of budget expenditures. Those Council members argued that a restrictive fiscal policy supports further monetary policy easing. Other Council members, however, pointed to the actions announced by the government aimed at alleviating the effects of the crisis, including, inter alia, mortgage-loan-repayment aid for the unemployed, which will limit the restrictiveness of the fiscal policy.

While considering the decision on interest rates, some Council members argued that the quickly deteriorating economic situation in the world and in Poland, the drop in inflation below the target over the projection horizon expected in the February inflation and GDP projection, and the relatively high restrictiveness of fiscal policy are factors supporting additional considerable NBP interest-rate cuts. Those members assessed that in the current conditions the influence of the interest rate disparity on the zloty exchange rate, and, by the same token, the risk of further depreciation of the zloty exchange rate, is limited. Other Council members argued that the risk of further significant depreciation of the zloty exchange rate that may lead to a considerable deterioration of economic activity in Poland, and the uncertainty about the magnitude of the impact of interest-rate cuts on domestic demand justified the decision of keeping interest rates unchanged at the current meeting. According to the majority of the Council members, given the considerable depreciation of the zloty the scale of the reduction of the NBP interest rates at the February Council meeting should be moderate.

Motions to lower the NBP interest rates by 25 and 50 basis points were put forward. A motion to lower the NBP interest rates by 50 basis points did not pass. A motion to lower the interest rates by 25 basis points was passed. The Council decided to lower the NBP interest rates to the level: the reference rate to 4.00%, the lombard rate to 5.50%, the deposit rate to 2.50% and the rediscount rate to 4.25%.

The Monetary Policy Council judged also that the situation on the foreign exchange market may justify employing the instruments directly affecting the zloty exchange rate.

Minutes of the Monetary Policy Council decision-making meeting held on 25 March 2009

During the meeting the Monetary Policy Council discussed the outlook for inflation in the context of the past, current and, primarily, anticipated economic situation.

The discussion at the meeting focused on the short-term interest rate developments in the context of conducted open market operations, zloty exchange rate changes, outlook for inflation and economic growth in Poland and situation in the banking sector.

The Council paid a lot of attention to the consequences of change introduced to conducting open market operations by limiting the supply of NBP bills. This change resulted in higher liquidity remaining in the banking sector and related reduction in short-term interest rates in the interbank market significantly below the NBP reference rate. It was argued that limiting the supply of NBP bills as compared to the demand is aimed at fostering activity of commercial banks in the interbank market. In the opinion of some discussants, lack of possibility of investing all the banks' liquid assets in money bills should further result in this liquidity being used to increase lending. At the same time, it was pointed out that limited supply of NBP bills translated into banks' increased interest in investing in Treasury bills.

Some members of the Council argued that changes introduced to conducting open market operations, translating into short-term interest rates in the interbank market lowering below the NBP reference rate should be taken into account in the Council's decisions concerning both the level of the NBP interest rates and the possible further changes in the monetary policy instruments used. At the same time, they pointed out that increased liquidity in the interbank market might impede exchange rate stabilization. Moreover, the Council decided that reduction of reserve requirement rate and decrease of the deposit rate by more that other NBP interest rates were not justified at the moment.

The Council also discussed the possible change in interest rates on FX swaps used by the NBP and extension of their maturity.

While addressing the exchange rate issues, it was pointed out that since the February meeting of the Council, the previously observed depreciation of the zloty had been halted. Some members of the Council emphasized that the role of interest rate disparity was temporarily limited, and exchange rate developments continued to be largely affected by other, mainly global and regional factors, which was indicated by similar changes in exchange rates of the currencies of Central and Eastern Europe. Other members of the Council argued that foreign exchange market is still marked by high volatility and that the Council should continue to take into account the risk of further depreciation of the zloty. In this context the importance of macroeconomic situation in other economies of the region and the impact of any negative developments in those countries on the zloty exchange rate were emphasized. In the opinion of those Council members, a major factor behind uncertainty concerning zloty exchange rate developments was prospects of Poland's accession to the euro area.

While discussing the exchange rate, it was stressed that the previously observed considerable zloty depreciation was the main risk factor for price stability in the coming months. It was pointed out that the weakening of the zloty, through a strong increase in fuel prices, contributed largely to a rise in inflation in February as compared to January 2009. Yet, at the same time, some Council members stressed that the impact of exchange rate fluctuations on inflation would probably be short-lived, and translation of the depreciation into domestic prices might be limited amidst economic slowdown. Other members of the Council argued that a rise in producer prices in February which proved considerably higher than expected, might be largely connected with the previously observed weakening of the zloty exchange rate. In the opinion of those Council members, although rising producer prices did not automatically translate into consumer prices, in the situation of weakening external demand, rising production costs might be compensated for by price increases in the domestic market, thus contributing to higher inflation. Those members also pointed out that any further weakening of the zloty might lead to the fading of the anti-inflationary effect connected with lower imported inflation.

It was emphasized that, apart from the previously observed considerable depreciation of the zloty exchange rate, higher inflation was driven mainly by rising administered prices, including, in particular, flat maintenance and energy prices. Some Council members argued that the coming months might be expected to see those prices continue to growth at an increased rate which would reduce a fall in inflation. It was also pointed out that food price developments resulting from unfavourable occurrences in the regions being important suppliers of main agricultural products, were a risk factor for inflation.

While addressing other factors affecting the outlook for inflation, some members of the Council pointed out that deepening recession in the global economy putting a downward pressure on inflation abroad and a relatively low level of prices of raw materials – below the level accounted for in the NBP February projection – would curb inflation in Poland. They also argued that amidst weakening external and domestic demand, falling demand for labour would cause faster that accounted for in the February inflation projection decline in wage growth which would be conducive to a reduction of growth in unit labour costs. Those Council members assessed that the above mentioned factors connected with strong decline in the demand pressure in the economy indicated faster decrease in inflation than accounted for in the projection, which is also suggested by the results of short-term forecasts prepared by the NBP.

While assessing the outlook for economic growth abroad, attention was paid to deepening recession in the United States and in the euro area as well as to further lowering of forecasts for those economies and the related risk of global recession lasting longer than accounted for in the February projection. It was emphasized that in response to the strong decline in economic activity and risks to stability of the financial sector, major central banks lowered their interest rates to very low levels and undertook actions aimed directly at increasing the supply of reserve money which were intended to intensify lending and decrease long-term interest rates. Attention was also paid to the fact that no further interest rate cuts were implemented by central banks of Central and Eastern Europe.

While discussing the domestic economic growth, it was pointed out that recession in Poland's main trading partners translated into decreasing exports and industrial output which was corroborated by the data for the first months of 2009. It was argued that weakening demand in the economy was leading to falling employment in the corporate sector, rising unemployment and declining wage growth. At the same time it was emphasized that deteriorating situation in the labour market was curbing consumer demand which was reflected by retail sales data. It was also indicated that deteriorating financial situation of enterprises was hindering their investment activity. According to some members of the Council, the above mentioned factors, namely reduced external and domestic demand (both consumer and investment demand) would result in GDP growth being considerably lower than accounted for in the February projection. Other Council members emphasized that the risk of further zloty depreciation was also of considerable importance for the outlook of economic growth, since through increase in the value of obligations denominated in foreign currencies and the related rise in debt service costs it might also lead to further deterioration in financial situation of households and enterprises leading to lower GDP.

While analyzing the situation in the banking sector, attention was paid to high liquidity preference of banks and their striving to attract deposits of non-financial sector by offering still high interest rates. It was pointed out that high costs of financing bank activity resulting from the above were reflected in increased margins on newly granted credits. At the same time, however, it was emphasized that in the first few months of 2009 reduction in interests rates on deposits and loans, following a considerable lowering of the NBP interest rates, was observed. Some discussants argued that NBP interest rate cuts should lead to further fall in interest rates on deposits thus reducing the costs of banks' financing and contributing to a reduction in interest rates on loans. Yet, it was pointed out that considerable increase in banks' margins was largely due to higher credit risk and, consequently, no considerable reduction in margins should be expected.

Some members of the Council emphasized that even if NBP interest rates reductions were not fully reflected in interest rates on newly granted loans in commercial banks, lower interest rates decreased the costs of servicing already taken loans which was of considerable importance for the financial condition of some households and enterprises. Other Council members pointed out that the impact of further interest rate cuts on the development of bank lending was currently limited since the volume of loans depended, to a major extent, on factors not directly linked to the NBP interest rates (such as high liquidity preference and high credit risk assessment).

The Council discussed the prospects of Poland's accession to the euro area and related requirement to fulfill the convergence criteria, including, in particular, price stability criterion.

While considering the decision on interest rates, some members of the Council argued that considerable decline in economic activity leading to significant reduction in demand, combined with lower wage pressure, and consequently also inflationary pressure, justified further lowering of the interest rates. The reduction of the NBP interest rates should – in their opinion – translate into lower interest rates on deposits and loans in commercial banks contributing to intensified lending and preventing excessive decline in economic activity. Other Council members argued, however, that the decision on interest rates should take into account the lowering of the short-term interest rates in the interbank market significantly below the NBP reference rate driven by changes introduced to the conducting of open market operations. They also pointed at the risk of further zloty depreciation and at a decline of real interest rate.

A motion to lower the NBP interest rates by 25 basis points was put forward and passed. The Council decided to lower the NBP interest rates to the level: the reference rate to 3.75%, the lombard rate to 5.25%, the deposit rate to 2.25% and the rediscount rate to 4.00%.

Minutes of the Monetary Policy Council decision-making meeting held on 29 April 2009

During the meeting the Monetary Policy Council discussed the outlook for inflation in the context of the past, current and, primarily, anticipated economic situation.

The discussion at the meeting focused on the outlook for economic growth in Poland and abroad, situation and outlook for public finance, inflation developments in Poland, zloty exchange rate developments and credit market situation.

While discussing the domestic economic growth, it was noted that the decline in exports, industrial output and retail sales in the first months of 2009 confirm a considerable slowdown in the economic activity in Poland. Yet, some members of the Council pointed out that better than expected macroeconomic data and a slight improvement in some business climate indicators in March 2009 might be a sign of a low-level stabilization of the activity in the Polish economy. Other members argued that a minor decline in industrial output and higher than expected rise in wages in March 2009 might be linked to a different than in 2008 holiday calendar, and some business climate indicators continue to indicate a further deterioration in the activity in the enterprise sector and a decline in demand in the Polish economy.

While addressing the outlook for domestic economic growth it was pointed out that due to a considerable – albeit not so high as in the majority of other countries of Central and Eastern Europe – openness of the economy, the global economic situation and related changes in demand for Polish exports are the factor of uncertainty to the economic situation in Poland. In this context, attention was paid to the deepening recession in the euro area and activity in the United States continuing at low level as well as to further downward revision of growth forecast for the global economy. The forecasts of considerable decline in GDP in 2009 in the German economy and in non-EU economies being Poland's major trading partners were indicated. However, at the same time, attention was also paid to a slight improvement in the situation in global financial markets and some signs suggesting that an intensification of unfavourable developments in the global economy had been halted.

Some members of the Council pointed out that improvement in exports might, in the later part of the year, constitute a factor driving recovery of the Polish economy which would, however, depend on zloty exchange rate developments. Other members of the Council assessed that changes in foreign demand might be of higher importance for the outlook for Polish exports than zloty exchange rate developments.

While analyzing the exchange rate developments, it was pointed out that the previously observed depreciation of the zloty had been halted. Yet, at the same time it was indicated that developments in exchange rates of currencies of emerging economies, including the zloty exchange rate, currently depended largely on changes in risk aversion in the international financial markets. Moreover, some members of the Council emphasized that postponement of the zloty joining the ERM II might be conducive to its depreciation. They also pointed out that worse than previously expected situation of the public finance sector might be another factor increasing the risk of zloty depreciation.

While discussing the situation in the public finance sector it was pointed out that the sector's deficit in 2008 was considerably higher than the one assumed by the government in the December 2008 Convergence Program. In this context, reference was made to the factors which contributed to considerably higher than anticipated deficit level. Some members of the Council emphasized that amidst the strong slowdown of economic activity it was likely that the budget deficit would exceed the level assumed for 2009 or budget expenditures would be cut. Some Council members also pointed out that possible implementation of additional anti-crisis measures might contribute to a rise in the budget deficit in the coming years. It was indicated that uncertainty about the fiscal situation, both of the central government and other entities of the public finance sector, hindered the assessment of its impact on the outlook for inflation in Poland.

While addressing the prospects of compliance with the Maastricht fiscal criterion it was assessed that as a result of strong deterioration in the economic situation in Poland, the deficit of the public finance sector in relation to GDP might increase considerably in the years 2009 and 2010. In this context, it was pointed out that fulfillment of the Maastricht fiscal criterion in the coming years might be impeded.

While discussing the current inflation developments, it was indicated that a rise in consumer price index in March 2009 up to 3.6% i.e. above the upper limit for deviations from the NBP inflation target set at the level of 3.5% had mostly been driven by a rise in food prices. It was also pointed out that the growth in regulated prices, including, in particular, rises in the prices of energy and prices related with maintenance of dwellings continued to be the factor boosting inflation. It was stressed that a rise in inflation had been driven by the previously observed zloty exchange rate depreciation and that exchange rate developments continued to be the main risk factor for price stability. Some members of the Council assessed, at the same time, that – taking into account the zloty appreciation observed since the middle of February 2009 – the impact of the previously observed depreciation of the zloty exchange rate on inflation may be rather short-lived. Other members of the Council argued that higher than expected rise in inflation in March 2009 indicated that even amidst strong economic slowdown, exchange rate depreciation translates significantly into a rise in consumer prices in Poland.

While addressing the outlook for inflation in Poland, some members of the Council assessed that in the medium term inflation should decline to the inflation target which was also suggested by the February inflation projection and short-term forecasts prepared by the NBP. This might be favoured by declining domestic demand and falling labour demand translating into a gradual fall in wage pressure and by the commodity prices continuing at relatively low levels. Those members also argued that a fall in inflationary expectations of households should contribute to a decline in inflation. Other members of the Council pointed, however, to the risk of inflation persisting at an increased level in the case of shocks affecting food and energy commodity markets. Moreover, some members of the Council indicated that considerable worsening in the situation of the public finance sector might urge the government to increase budget income through rises of indirect taxes, including excise tax, and local governments – to increase the prices of services depending on their decisions, which would, in turn, contribute to higher inflation.

The Council also discussed the prospects of Poland's compliance with the Maastricht price stability criterion. Some Council members indicated that amidst inflation in some EU countries falling to very low levels the reference value for price stability criterion in 2010 might run considerably below the 12-month moving average HICP inflation in Poland. In the opinion of those members fast disinflation in Poland that would enable to fulfill again the Maastricht criterion might then require considerable tightening of the monetary policy. At the same time, some members of the Council pointed out that the developments of HIPC inflation in Poland against the reference value for price stability criterion in the coming years would largely depend upon changes in regulated prices.

While discussing the credit market situation, some members of the Council pointed out that banks in Poland currently focused their lending activity on consumer loan market. Interest rates on consumer loans slightly increased despite NBP interest rate cuts implemented since November 2008. Moreover, they argued that excessive rise in households' burden resulting from servicing consumer loans might – through rising value of irregular loans – lead to deterioration in banks' capital adequacy ratios and, in consequence, result in limiting future lending. Other members of the Council pointed out, however, that the rise in the value of consumer loans was lower than last year, and the share of consumer loans in the total loans was relatively small.

Members of the Council also discussed strong reduction in corporate lending in 2009 Q1. It was pointed out that banks' tightening of their lending conditions, partly connected with persisting uncertainty about future economic developments hindering the assessment of the credit risk, constituted the factor limiting corporate lending. Some members of the Council assessed that in order to intensify corporate lending further modifications of the monetary policy instruments might be necessary.

At the meeting, the Council also addressed the possibility of Poland obtaining the IMF flexible credit line. It was emphasized that the flexible credit line is aimed at countries with strong economic fundamentals which used to pursue a responsible macroeconomic policy in the past and which are likely to continue such a policy in the future. It was pointed out that Poland's access to the IMF funds might favour the exchange rate stabilization and indirectly facilitate obtaining the funds to finance the budget deficit and public debt in foreign markets as well as to reduce debt service costs. The Council analysed also the impact of Poland's access to the flexible credit line on the outlook for inflation in Poland.

The meeting also focused on dilemmas connected with the interest rate policy in the longer term. It was pointed out that recovery in the global economy would require considerable tightening of macroeconomic policy in many countries, which might be difficult both due to the scale of the implemented anti-crisis instruments and uncertainty about the sustainability of such economic recovery. In this context, some members of the Council pointed out that lowering the NBP interest rates currently to excessively low levels might later on require a relatively faster and stronger tightening of the monetary policy in order to stabilize inflation at the level of the inflation target. Moreover, it was pointed out that excessive interest rate cuts might – in the situation of further deterioration of the economic climate or economic stagnation – limit the possibility of lowering interest rates in the future in order to support economic growth in Poland.

Some members of the Council indicated that the real *ex post* interest rate (deflated with current headline inflation) in Poland was lower than in the euro area. Besides, it was pointed out that – according to the short-term forecasts prepared at the NBP – in April 2009 inflation might exceed the current level of the NBP reference rate, and, as a result, the real interest rate would be negative. Yet, it was also indicated that amidst the unfavourable economic climate and persisting uncertainty about future economic developments, a fall in real interest rates to the negative levels might have a limited impact on households' propensity to save. In this context, attention was paid to considerable decline in the monetary policy restrictiveness, which was driven – apart from interest rate cuts – also by the previously observed significant weakening of the zloty exchange rate.

Members of the Council agreed that uncertainty about the outlook for economic recovery in Poland and abroad, the situation in the public finance sector and zloty exchange rate developments and their impact on inflation justified keeping the NBP interest rates unchanged at the current meeting. Moreover, some members of the Council indicated that also very low level of real interest rates spoke in favour of leaving the NBP interest rates unchanged. The majority of the Council members maintained the opinion that the probability of inflation running below the inflation target in the medium term was higher than the probability of inflation running above the target.

The Council kept the interest rates unchanged: the reference rate at 3.75%, the lombard rate at 5.25%, the deposit rate at 2.25% and the rediscount rate at 4.00%.

Minutes of the Monetary Policy Council decision-making meeting held on 27 May 2009

During the meeting the Monetary Policy Council discussed the outlook for inflation in the context of the past, current and, primarily, anticipated economic situation.

The discussion at the meeting focused on the situation in the credit market and in the banking sector as well as on the outlook for economic growth and inflation in Poland and abroad.

The Council paid a lot of attention to the situation in the domestic credit market. It was pointed to a strong decline in the growth of corporate and mortgage loans. On the other hand, attention was paid to a still high growth in consumption loans. It was pointed out banks might give preference to consumer loans market as the average volume of this type of loan is lower and the average maturity shorter, whereas interest rate significantly higher than in the case of other loan categories. Yet, some members of the Council paid attention to the growing risk of the loan portfolio deterioration related with granted consumption loans and, as a result, possible reduction of lending also in this segment.

It was emphasized that reduction in lending has a negative impact on economic activity in Poland. It was also pointed at the risk of unfavourable feedback between deteriorating situation in the real economy and situation of the financial sector.

While discussing measures that could support lending growth, the lowering of the required reserve rate was considered. It was emphasized that lowering of the reserve requirement was one of the expectations stated by banks during the preparation of the Pact on Credit Action Development in Poland. In the opinion of the Council, the reduction of the required reserve rate should be conducive towards increasing banks' lending. While analysing the scale of the reduction in reserve requirement, it was pointed out that lowering of this rate should be implemented gradually, and potential further adjustments should depend on the impact of this reduction on bank lending and interest rate developments in the interbank market.

Some members of the Council argued that high credit risk assessment was a more important reason for banks' limiting their lending than liquidity situation. In this context it was assessed that implementation of the guarantees and warranties of the Bank Gospodarstwa Krajowego introduced under the governmental Stability and Development Plan would favour the growth of corporate lending.

While discussing the outlook for bank lending in Poland, the capital position of the banking sector was also addressed. It was pointed out that solvency ratio for the whole banking sector had recently stabilized, yet the capital position of different banks was diverse. The risk of decline in capital adequacy ratios may – in the case of some banks – reduce their lending.

It was also pointed out that amidst the low limits for interbank transactions – in their attempt to acquire deposits from non-financial sector – banks had offered, for several months now, relatively high interests rate on deposits, considerably exceeding interest rates on loans in the interbank market. In the opinion of some members of the Council, banks undertake such measures in order to change the structure of their balance sheets to improve the relation between the value of granted loans and the value of acquired deposits. Those members also pointed out that relatively high costs of financing of banks' activity were coupled with falling yields on previously granted loans whose interest rate was largely based on variable WIBOR 3M rate.

While analyzing the money market interest rate developments, it was pointed at the recent rise in WIBOR 3M rate which occurred amidst NBP interest rates being kept unchanged. Attention was also paid to the fact that WIBOR 3M rate was now considerably higher than the interest rate on repo transactions with the same maturity. According to some members of the Council, decline in banks' income on granted loans being the result of falling interest rates in the interbank market accompanied by high costs of acquiring deposits induces those banks to undertake measures aimed at maintaining WIBOR 3M rate at a heightened level, while limiting their interbank transactions.

While discussing the external environment of the Polish economy, it was pointed to the signs of easing of downward trends in the global economy. At the same time, it was emphasised that the uncertainty about the starting point and sustainability of a possible recovery in the world economy remains high. In this context, attention was paid to the data suggesting stabilization of economic activity in the United States, while, at the same time, it was pointed out that some recently released data on American economy was worse than expected.

While analysing the outlook for economic growth in Poland's major trading partners, it was assessed that due to relatively lower flexibility of product and labour markets, the recession in Western Europe might be longer than in the United States. It was emphasized that a strong drop in GDP growth in euro area economies in 2009 Q1 might suggest that decline in economic activity in this region in 2009 – despite recent improvement in some economic indicators – would be deeper than expected. Some members of the Council also indicated that good economic situation in Western European economies in the past few years was largely driven by the boom in real estate markets and high demand for investment goods in the world. Those members argued that amidst current slump in real estate markets the recovery might take relatively long time both in the countries where the real estate bubble had burst and in the countries which had not reported any significant disequilibrium in these markets but whose exports were largely dependent upon high demand in the global economy. At the same time, those members pointed out that persisting low level of production capacity utilization in Western European economies might lead to a decline in the inflow of foreign direct investment to the countries of Central and Eastern Europe, including Poland, which might negatively affect productivity and economic growth in this region.

While analysing the situation in the Polish economy, it was indicated that the released data suggested a possibility of GDP growth remaining positive in 2009 Q1. At the same time, it was assessed that subsequent quarters would see a downward trend in GDP growth which was suggested by macroeconomic data for April 2009 and economic indicators remaining at a low level despite a certain improvement in recent period. Some members of the Council assessed that GDP would probably grow in 2009, albeit the risk of its slight decline could not be excluded. Moreover, other members of the Council assessed that recovery in the Polish economy might come later than expected and the GDP growth might remain at a relatively low level for a longer period of time, should the recession in Poland's major trading partners prove long-lasting.

In the opinion of some members of the Council factors curbing the decline in GDP growth in subsequent quarters might include – similarly to 2009 Q1 – consumption and net exports. It was pointed out that consumption growth slowed down gradually due to still relatively high wage growth, income tax cuts implemented in 2009 and continuation of relatively high growth in consumption loans. On the other hand, it was emphasized that growing unemployment and anticipated decline in wage growth as well as worse consumer sentiment - despite certain recent improvement – as compared with the previous years constituted factors that might be conducive to limiting future consumption demand. Moreover, some members of the Council pointed to the risk of decline in real wages in the economy which might lead to further reduction in consumption.

While addressing investment in the Polish economy, it was pointed out that further decline in private investment would be driven by unfavourable outlook for economic growth in Poland and abroad amidst production capacity surplus connected with high level of investment in the previous years. It was also emphasized that factors acting towards decline in investment expenditure would in addition include limited possibility of financing private investment in Poland caused by falling inflow of foreign direct investment, reduced bank lending and deteriorating financial condition of enterprises. On the other hand, it was pointed out that investment decline in the Polish economy might be curbed by investment projects co-financed with EU funds.

While analysing current inflation developments, it was indicated that in April 2009 inflation exceeded expectations and remained above the upper limit for deviations from the inflation target. At the same time, it was pointed out that the rise in inflation in that month was caused by rising food prices, regulated prices and traded goods prices which was driven by the previous zloty exchange rate depreciation. Some members of the Council emphasized that developments of consumer price index net of prices largely beyond the direct control of monetary policy signalled that inflationary pressure in Poland had not eased considerably yet.

While discussing the outlook for inflation in Poland, some members of the Council pointed out that short-term forecasts of the NBP suggested inflation might decline in the coming months below the upper limit for deviations from the inflation target. Those members also pointed out that the structure of inflation expectations had not deteriorated despite the rise in current inflation. In the opinion of those members of the Council in the medium term decline in inflation should be driven by the slowdown in economic growth and further widening of the negative output gap in Poland. Other members of the Council also pointed out that at the initial stage of recovery in the Polish economy inflationary pressure should not increase considerably due to faster labour productivity than wage growth and, consequently, favourable changes in unit labour costs.

Some members of the Council also argued that amidst persisting considerable negative output gap inflation in Western European countries might run, for a longer time, at a low level, which – through import prices – would be conducive to easing inflationary pressure in Poland. Yet, some members of the Council pointed at the risk of growth in agricultural and energy commodity prices in the case of revival of economic activity in the United States and China, likely to occur earlier than in Europe. Those members argued that continuing relatively low growth in the Polish economy connected with persisting recession observed in Poland's major trading partners might be then accompanied by inflationary pressure resulting from increase in commodity prices in the global markets.

At the meeting, it was also pointed out that the rise in inflation in the medium term might in addition be driven by a possible rise in indirect and local taxes as well as fees and prices regulated by local governments, connected with considerable deterioration in the situation of the general government sector. At the same time, some members of the Council pointed at high uncertainty about future tax policy of central government and about taxes, fees and prices decided by local authorities.

While discussing the impact of exchange rate on inflation, some members of the Council assessed that exchange rate developments remained the main risk factor for price stability. Those members also argued that – in the absence of current inflation growth translating into rising inflationary expectations and assuming exchange rate stabilization in the future – the impact of exchange rate depreciation on inflation might be expected to fade off gradually. Other members of the Council pointed out, however, that the pass-through of the previous exchange rate developments on inflation might be stronger than assessed earlier.

Moreover, some members of the Council argued that the risk of deterioration in the outlook for growth in the Polish economy as a result of longer-than-expected slowdown in the economic activity in the euro area and a fall in the inflow of direct investment might be conducive to zloty exchange rate depreciation in the medium term. Those members also pointed out that the risk of exchange rate depreciation might result from deteriorating situation in the general government sector in Poland. Deteriorating fiscal situation increases uncertainty about the moment of zloty entering the ERM II.

At the meeting the prospects of Poland meeting the Maastricht price stability criterion were also addressed. It was indicated that 12-month moving average HICP inflation in Poland exceeded in April 2009 by 0.7 percentage point the reference value for price stability criterion and that the difference between those indicators increased considerably.

Members of the Council agreed that current inflation developments, uncertainty about the prospects of economic recovery in Poland and abroad and uncertainty about the situation in the public finance and its impact on inflation justified keeping the NBP interest rates unchanged at the current meeting. Some members of the Council indicated also that also very low level of real interest rates spoke in favour of leaving the NBP interest rates unchanged. The majority of the Council members decided that a more comprehensive assessment of the medium-term outlook for inflation would be possible after getting acquainted with the results of the June projection of inflation and GDP. Moreover, the Council decided that strong contraction in lending justified lowering the required reserve rate by 50 basis points at the current meeting.

A motion to lower the required reserve rate by 50 basis points was put forward and passed. The Council lowered the required reserve rate from 3.5% to 3%, keeping, at the same time, the interest rates unchanged: the reference rate at 3.75%, the lombard rate at 5.25%, the deposit rate at 2.25% and the rediscount rate at 4.00%.

Minutes of the Monetary Policy Council decision-making meeting held on 24 June 2009

During the meeting the Monetary Policy Council discussed the outlook for inflation in the context of the past, current and, primarily, anticipated economic situation.

The discussion at the meeting focused on the outlook for economic growth abroad and in Poland, fiscal policy, zloty exchange rate developments and the situation in the credit market and the banking sector. The Council discussed the impact of those factors on future inflation in Poland against the background of the June projection of inflation and GDP.

While discussing the domestic economic growth, it was pointed out that decline in industrial output and very low growth of construction and assembly production in May 2009 confirmed the subdued economic activity in Poland. Some members of the Council pointed out that many macroeconomic indicators released recently, including the output data, were better than expected and some economic activity indicators pointed currently at a possible improvement in the outlook for growth in Poland. Other members of the Council argued, however, that worsening economic indicators in retail trade might signal further shrinking of consumption demand, which is driven i.a. by the decline in real aggregate wage in the enterprise sector. Those members also pointed out that according to the NBP preliminary assessments investment in the Polish economy might have strongly declined in 2009 Q2. Those members also emphasized that the June projection of the NBP pointed at further considerable decline in GDP growth in the coming quarters. Moreover, some members of the Council emphasized that the decline in economic activity in Poland might be stronger than indicated by the projection.

While discussing the external environment of the Polish economy, the successive signs of improvement in the outlook for world economic growth and stabilization of the situation in the global financial markets were pointed at. Yet, some members of the Council assessed that recession in the global economy might last longer that currently expected, and improvement of the situation in the financial markets might only be temporary. Those members emphasized that macroeconomic data did not univocally suggest that the downward trend in economic growth in the United States had been reversed. In the opinion of those members, recovery of the American economy would proceed gradually, which might delay the recovery of the euro zone and other developed economies. Those members indicated that 2009 was expected to bring a further strong decline in economic activity in the euro area and some forecasts pointed to the risk of GDP fall in this region also in 2010.

While analyzing the situation in the public finance sector, it was pointed out that a low growth rate of budget income in the first five months of 2009, including a considerable decline in tax revenues, which, given the persistently high expenditure growth, had led to a rapid increase in budget deficit. Some members of the Council pointed out that in order to limit the decline in tax revenues in 2009, the government would strive to increase non-tax revenues, including dividends from companies with State Treasury participation, which, given the restricted access to loans, might be conducive to additional cuts in investment expenditure by those enterprises. At the same time, those members assessed that – despite possible increase in the proceeds from dividends – the decline in budget income in 2009 would probably exceed the government announced growth in the planned deficit, which would suggest the need of cuts in some expenditure areas. Those members emphasized that the cuts in budget expenditure already announced by the government as well as possible further cuts would be conducive to a fall in domestic demand. The possible rise in taxes in 2010 might also lead to curbing domestic demand. It was also pointed out that the uncertainty about the scale of the actual expenditure cuts and the areas likely to be affected by these cuts, including the uncertainty resulting from some expenses being shifted from the central government budget to other units of the general government sector, makes it difficult to assess the impact of the changes in fiscal policy on the outlook for domestic economic growth.

While assessing the impact on inflation of changes in the situation of the general government sector and in the fiscal policy, the risk of a rise in inflation resulting from possible increases of regulated prices and indirect taxes in 2010 was indicated. Some members of the Council assessed that the rise in excise and VAT rates might be conducive to the CPI remaining at an increased level in 2010. Other members of the Council pointed out, however, that the possible tax increases and the government announced cuts in budget expenditure would be conducive to curbing domestic demand and, as a result, inflationary pressure. Those members also indicated that the rise in the budget deficit results mainly from the deteriorating economic conditions rather than from fiscal policy easing.

While analyzing the changes in current inflation it was pointed out that CPI inflation had fallen to 3.6% in May 2009, remaining, however, above the upper limit for deviations from the inflation target, set at 3.5%. It was emphasized that the inflation decline in May 2009 had mainly been driven by the negative base effect related to a strong rise in gas and energy prices in the corresponding period of the previous year. Some members of the Council indicated that the growth rate of consumer prices in the first few months of 2009 exceeded the average from the last eight years, which, by means of a base effect, might be conducive to a decline in the year-on-year inflation rate at the beginning of 2010. Those members also pointed out that in 2009 inflation was likely to remain at an increased level which would be driven i.a. by the positive base effect connected with a sharp fall in fuel prices in the second half of 2008.

While discussing the current inflation, some members of the Council also pointed out that inflation remaining above the upper limit for deviations from the inflation target was mainly connected with the previously effected increases in regulated prices and rising unprocessed food prices. Other members of the Council indicated that inflation was also driven – and would probably continue to be driven – by the persistence of inflationary processes. Moreover, they assessed that despite declining inflationary pressure some sectors of the economy continued to observe demand pressure as suggested i.a. by rising prices of market services.

The meeting also focused on HICP inflation developments in Poland. Some members of the Council pointed out that the difference between the 12-month moving average HICP inflation in Poland and the reference value for the price stability criterion increased in May 2009 to 1.0 percentage points. Yet, other members of the Council emphasized that inflation in Poland was higher than in Western European countries mainly due to considerable rises in regulated prices, which were beyond the direct impact of monetary policy. The difference in inflation levels might also be driven by the previously observed depreciation of the zloty exchange rate and a smaller scale of economic slowdown in Poland.

While discussing the outlook for inflation in Poland, attention was paid to the forecasted considerable decline in inflation in the projection horizon. Yet, some members of the Council pointed out that the situation in commodity and food futures markets pointed at the risk of a continuing upward trend in commodity and food prices, which might be conducive to rising inflation in Poland. Moreover, the decline in inflation might be curbed in the longer term by structural changes in the Polish economy boosting demand for market services. Those members also pointed out that in line with the projection in the years 2010-2011 CPI inflation should run below inflation net of food and energy prices which had not been observed since 2003.

Other members of the Council emphasized, however, that the June projection of the NBP pointed at the considerable widening of the negative output gap leading to a strong decline in inflationary pressure over the monetary policy transmission horizon. Moreover, some members of the Council assessed that in the medium term inflation might run below the central path of the projection due to the risk of economic growth abroad being lower than assumed in the projection. They also pointed out that due to the relatively slow adjustment of employment in the first stage of the economic slowdown, employment growth, and consequently also the growth of unit labour costs, might in the longer term be lower than accounted for in the projection. Those members also assessed that amidst low demand the impact of rising unit labour costs on inflation might be relatively weak. Moreover, in the opinion of those members of the Council, the zloty exchange rate is currently significantly weaker than the medium-term equilibrium rate which suggests that it might be stronger than accounted for in the projection.

While analyzing the developments in the exchange rate of the zloty, its relative stabilisation in the past few months was emphasized. On the other hand, it was pointed out that in May and June 2009 the zloty exchange rate had depreciated. It was stressed that at present zloty exchange rate fluctuations were impacted mainly by regional factors, in particular the unfavourable macroeconomic situation in some countries of Central and Eastern Europe. At the same time, attention was paid to the uncertainty about the impact on the zloty exchange rate of the worsening fiscal situation and the changing outlook for economic growth in Poland. On the other hand, some members of the Council assessed that the risk of zloty depreciation had considerably decreased as a result of improved sentiment in the global financial markets and was further mitigated by the relatively strong fundamentals of the Polish economy.

While discussing the impact of zloty exchange rate fluctuations on the economy, it was pointed out that the previously observed zloty exchange rate depreciation contributed to inflation persisting at an increased level. Some members of the Council assessed, however, that amidst low demand the impact of zloty depreciation on inflation would gradually decline. Those members emphasized that the current level of the zloty exchange rate increased the competitiveness of Polish products in foreign markets and in the domestic market, which is reflected in the improved current account balance and curbs the decline in domestic production.

While discussing the level of interest rates in Poland and abroad, it was pointed out that in the current situation the interest rate disparity between Poland and the euro area had a limited impact on zloty exchange rate developments. Yet, some members of the Council indicated that in the case of further decline in risk aversion in the international financial markets the currently observed disparity might boost the inflow of short-term capital to Poland. Other members of the Council pointed out, however, that this risk was mitigated by a still high level of risk premium prevalent in emerging economies. In the opinion of those members of the Council, the currently observed disparity was consistent with the higher natural interest rate and more favourable economic situation in Poland than in the euro area. Moreover, those members of the Council pointed out that ex post real interest rates (deflated with current headline inflation) in Poland were lower than in the euro area.

While analyzing the situation in the credit market, further strong decline in the growth of lending to the private sector was indicated. Some members of the Council pointed at the growing credit risk both with regard to corporate loans and household loans. Those members indicated that a considerable increase in lending might take place only after banks' concerns about the quality of their credit portfolios have abated. Moreover, they pointed out that limited lending was also driven by banks' high liquidity preference connected with their focusing on the improvement of their balance sheet structure through increasing the share of liquid assets. Other members of the Council emphasized that the strengthening of banks' capital base might support the increase in lending activity. In this context they assessed that the possible dividend payment by PKO BP would likely lead to a reduction in the supply of loans by this bank.

Moreover, those members pointed out that if other banks also decided to pay out dividends, the financial stability risk might increase.

While considering the decision on interest rates, some members of the Council argued that the considerable decline in inflation over the monetary policy transmission horizon anticipated in the June projection, further economic slowdown in Poland, the risk of long-lasting low economic activity abroad and the relatively tight fiscal policy stance, justified lowering the NBP interest rates at the current meeting. Other Council members argued, however, that the low level of real interest rates, current inflation remaining at a heightened level and the uncertainty about the outlook for inflation in Poland amidst growing commodity prices in the world markets and the still high volatility of the zloty exchange rate as well as risks connected with the future fiscal policy justified keeping the interest rates unchanged at the current meeting.

A motion to lower the NBP interest rates by 25 basis points was put forward and passed. The Council decided to lower the NBP interest rates to the level: the reference rate to 3.50%, the lombard rate to 5.00%, the deposit rate to 2.00% and the rediscount rate to 3.75%.

Minutes of the Monetary Policy Council decision-making meeting held on 29 July 2009

During the meeting the Monetary Policy Council discussed the outlook for inflation in the context of the past, current and, primarily, anticipated economic situation.

The discussion at the meeting focused on the outlook for economic growth abroad and in Poland, medium-term inflation outlook, fiscal policy and credit market conditions.

The Council devoted a lot of attention to the outlook for global economic growth, while at the same time pointing out the considerable uncertainty surrounding the activity in the world economy both in the near future and in the longer term. It was emphasised that in the light of some data, including in particular those on the United States and China, recessionary tendencies in the world economy might have been halted in 2009 Q2, which is to a large extent connected with the fiscal and monetary stimulus programmes being implemented in many countries. Some Council members assessed that those programmes may be conducive to a recovery of global economic growth in 2010. They argued that accelerated economic growth in China may have an effect of reviving the activity in other Asian economies and – through increasing trade, which would also include raising those countries' demand for imported investment goods – lead to an economic recovery in the euro area and the United States. Other members of the Council, however, believed that the incoming information was rather ambiguous and that on the basis of data signalling a strong increase in savings accompanied with a drop in household consumption in the United States and also a further deterioration in the euro-area labour market in 2009 Q2, it was difficult to expect any marked rise in global economic activity in the near term. Moreover, they argued that with the end of the stimulus programmes implemented in the United States and many other countries the activity in these economies may slacken again, which may be connected with government expenditures being trimmed to curb budget deficits and limited spending of indebted households.

While addressing the long-term outlook for the world economic growth, some Council members argued that the global financial crisis may negatively affect the potential GDP growth in many countries. This may be driven by the steep decrease in world trade and international capital flows, in particular foreign direct investment, the breakdown of a part of the financial sector and the ensuing reduced access of economic agents to credit and also by the relatively persistent rise in unemployment. In the opinion of those Council members, the high level of uncertainty as to the impact of the financial crisis on economies in the longer term significantly hinders the assessment of the future economic growth and inflationary pressure in the world and in Poland, especially with the use of econometric models which are based on historical data.

While addressing the situation in the domestic economy, it was pointed out that some positive signals regarding the economic activity appeared recently. It was assessed that the deceleration of recessionary tendencies in Poland may be indicated by the slower decline of industrial output, an improvement in some business confidence indicators and the fact that part of the data for June proved better than expected. Some Council members assessed that the GDP growth in 2009 Q2 may have been positive and slightly higher than expected in the June projection, which raised the probability of above-zero GDP growth in the whole of 2009.

Other Council members, however, emphasised that in the light of the June NBP projection the GDP growth would be lower than the potential output growth in the monetary policy transmission horizon. Those members assessed that in the time to come recession abroad would continue to negatively affect the activity in the Polish economy, in particular through the low demand for Polish export products and a drop in foreign direct investment conducive to lowering labour productivity. They emphasised that the rise in unemployment, declining growth of real wages and the drop in the value of households' assets observed till 2009 Q1 would be contributing to further reduction in consumption demand in the coming quarters. They also argued that the prospects for investment growth in the enterprise sector remained negative, among others, due to the pessimistic – despite some improvement – sentiment of entrepreneurs, hindered access to credit and possible further tightening of banks' credit policies and also deteriorating corporate profits. In the assessment of some Council members, economic growth in Poland may run below the central path of the June projection of the NBP, among others, due to the possibly lower economic activity abroad than accounted for in the projection, weaker than projected investment growth connected with the negative business sentiment and a stronger increase in unemployment along with the ensuing drop in households' disposable income. Those members also argued that the recently observed appreciation of the zloty would be conducive to reducing net exports and, consequently, to lowering GDP growth.

At the meeting the Council also discussed the fiscal policy and its impact on the outlook for economic growth in Poland. It was pointed out that in the light of the draft amendment of the *Budget Act for the Year 2009* passed by the lower chamber of the Parliament the drop in tax revenue in 2009 would be significantly deeper than the scale of the assumed increase in the central budget deficit. In the opinion of some members of the Council, with a persisting structural deficit of the general government, part of lost tax revenue would be compensated by ad hoc measures aimed at increasing non-tax revenue or cutting or postponing budget expenditure. In the assessment of those Council members, such measures would be conducive to a one-off reduction of the central budget deficit in 2009, but at the same time to its increase in the following years. This creates the risk for the public debt to breach the so-called prudential thresholds provided for in the *Public Finance Act* and also the limit set forth in the Constitution, which would necessitate a strong fiscal tightening and would have a procyclical effect of undercutting domestic demand and slowing GDP growth. Moreover, in the assessment of those Council members, the shifting of some central budget expenditures to other general government units, which was assumed in the discussed bill, led to reducing the transparency of the public finance and increasing the uncertainty as to the actual scale of fiscal imbalance in Poland. In this context it was emphasised that there was a need of implementing structural reforms, including the public finance reform, in Poland in the longer run, which would favour a permanent increase in economic growth.

While discussing current inflation it was pointed out that the CPI inflation in June declined to the upper limit for deviations from the inflation target of the NBP (i.e. to 3.5%), which was primarily the effect of a stronger than a year before seasonal drop in the food price growth and slower growth of prices of energy carriers resulting mostly from the base effect. Some members of the Council emphasised that June also saw a reduction in core inflation net of food and energy prices, which in 2009 Q2 as a whole proved slightly lower than forecast in the June inflation projection. Other Council members stressed that in the past few quarters core inflation remained at an elevated level and did not fall significantly despite a strong deceleration of economic growth, which pointed at the persistence of inflationary processes. In particular, the prices of some market services have been rising over the recent months, which in the opinion of those Council members might indicate a persisting demand pressure in some sectors of the economy. Moreover, those Council members pointed out that – despite a decline in June – the CPI inflation in the whole of 2009 Q2 proved markedly higher than in the June projection. In this context it was pointed out that the ex post real interest rates (deflated with current inflation) in Poland were close to zero.

While analysing the medium-term inflation outlook, some Council members assessed that – in line with the June projection – inflation in the monetary policy transmission horizon would fall below the inflation target, which would be driven with the negative output gap and easing wage pressure. At the same time, some Council members assessed that inflation in the medium term could be lower than envisaged by the central projection path due to lower growth of unit labour costs, which could result from a deeper drop in wage growth than that accounted for in the projection. Moreover, in the conditions of low demand the impact of ULC growth on inflation may be limited. Another factor mentioned as potentially conducive to lower inflation in the time to come was the significant appreciation of zloty exchange rate observed over the past few months.

Other Council members assessed that inflation in the coming quarters may be running above the central projection path, among others, due to the risk of higher commodity and food prices than in the projection and the continuing high demand for some services resulting from the structural changes ongoing in the Polish economy and increasing the prices of those services. Those members also pointed out that in line with the June projection, in 2010-2011 CPI inflation should be running below core inflation net of food and energy prices, which has not been observed since 2003. They also argued that, due to the difficult revenue situation of the general government sector, the coming period may bring further increases of administered prices, which would postpone the decline in inflation. On the other hand, however, they emphasised that an elevated inflation level in the time to come would mainly follow from the previously implemented and possible further increases of administered prices and only to a small extent from the continuing demand pressure.

The Council discussed the credit market situation and interest rate developments in Poland. It was pointed out that, despite the NBP interest rate cuts, in June 2009 the interest charged on some newly granted loans increased, which in combination with the concurrent decline in the interest paid on some new deposits pointed to increased interest margins of banks. In the opinion of some Council members, the imperfect pass-through of the reference rate to the interest rate charged on new loans was an argument against further cuts of NBP rates. Other Council members argued that the so far effected NBP interest rate cuts had, in the longer perspective, contributed to lowering the interest on loans and that the reduction in lending along with increased interest margins were related to the growing credit risk, particularly in the case of loans granted to corporates. The Council also analysed the impact of the NBP's interest rates on long-term interest rates.

While considering the decision on interest rates, the Council assessed that the uncertainty about the outlook for inflation and economic growth in the world and in Poland justified keeping the rates unchanged at the current meeting. Some members of the Council believed that in view of the low level of real interest rates, the continuously elevated current inflation level and balanced – in their assessment – probabilities of inflation running above or below the inflation target in the medium term, the NBP interest rates should be kept unchanged also in the months to come. Other Council members assessed that inflation would drop below the NBP inflation target in the medium term, which combined with the risk of a stronger than expected decline in economic growth may justify the continuation of monetary policy easing in the future. The prevailing view at the meeting was that the probability of inflation running below the inflation target in the medium term was higher than the probability of inflation running above the target.

The Council kept the interest rates unchanged: the reference rate at 3.50%, the lombard rate at 5.00%, the deposit rate at 2.00% and the rediscount rate at 3.75%.

Minutes of the Monetary Policy Council decision-making meeting held on 26 August 2009

During the meeting the Monetary Policy Council discussed the outlook for inflation in the context of the past, current and, primarily, anticipated economic situation.

The discussion at the meeting focused on the outlook for economic growth abroad and in Poland, medium-term inflation outlook, zloty exchange rate developments and credit market conditions.

While discussing the external environment of the Polish economy it was pointed out that the data on the United States and the euro area, including the GDP data for 2009 Q2, indicate easing of recessionary tendencies in those economies. In particular, it was emphasised that GDP in quarterly terms grew in Germany and France, i.e. in countries being the most important markets for Polish exports. It was pointed out that GDP growth might have been driven by growing demand for exports of those countries reported by the Chinese economy, which was connected with the fiscal stimulus programme supporting public sector investment in China. It was indicated that since the July meeting of the Council, the majority of economic sentiment indicators had further improved and GDP growth forecasts for 2010 in the United States and in the euro area had been slightly revised upwards.

At the same time, it was emphasised that the global economic activity had continued at a low level and at present it was difficult to assess whether the easing of recessionary tendencies would prove permanent and what would be the scale of a possible recovery. Considerable uncertainty about the outlook for the global economy is primarily connected with the next year's finalising of stimulus programmes which are now significantly contributing to mitigating recessions in major economies. The unfavourable situation in the labour market, strong rise in savings and decline in consumption in the United States together with further deterioration in euro-area labour market all indicate that the stimulus programmes may have only a limited bearing on reviving private demand. Another important factor affecting global economic growth will be GDP growth in China. The assessment of the growth outlook is additionally hindered by persisting problems in the banking sector.

Some members of the Council argued that the above mentioned factors, after a temporary recovery driven by direct effect of stimulus programmes, might bring about another decline in the global economic growth. In particular, those members argued that the expected recovery in the euro area might not prove long-lived. In this context, they pointed out that despite certain improvement in the financial markets conditions the majority of commercial banks operating in the euro area continued to tighten their lending policies. Other Council members assessed that despite considerable uncertainty persisting, the incoming information indicated an improvement in the outlook for the global economic growth, which might suggest that the global recession would be less severe than anticipated. Those members also pointed out that the growing role of Asian countries in the global economy might contribute to the recovery in the euro area despite weak domestic demand in this economy.

While analysing the inflationary processes abroad, it was pointed out that despite growing commodity prices the decline in overall price level in the United States and in the euro area had further deepened, amidst further decrease in positive core inflation indicators. Some members of the Council argued that these trends indicated that possible global inflationary threats would be probably of a longer-term nature and in the coming quarters major central banks should not be expected to start tightening their monetary policy. In the opinion of those Council members, the persisting pressure on price decline in the global economy would be, through import prices, curbing inflation in Poland. Other members of the Council pointed out that due to an unprecedented scale of stimulation measures introduced in the largest economies, the credibility of the so-called exit strategy from the expansionary macroeconomic policy would be of key importance for permanent anchoring of inflationary expectations and, as a result, for stabilising inflation at a low level.

While addressing the situation in Poland, the members of the Council pointed out that the data on the domestic economic climate were ambiguous. On the one hand, further decline in Polish exports and persisting negative annual growth in industrial output (including the output of intermediate and investment goods), deepening fall in employment in the corporate sector, growing unemployment rate and further decline in bank lending all pointed to the continuation of low activity in the Polish economy. On the other hand, the majority of economic sentiment indicators rose, which may indicate an improvement in the economic situation in the months to come.

While discussing the outlook for economic growth, it was stressed that it largely depended on economic situation abroad and the related external demand for Polish products. It was pointed out that factors supporting economic growth in Poland included the continuing, albeit lower than in the previous quarters, consumption growth and a positive contribution of net exports, connected with both the improvement in the price competitiveness of the Polish products in relation to imports driven by the depreciation of the zloty in the second half of 2008 and at the beginning of 2009, and also by the effect of stimulus packages introduced in the major world economies. In this context it was argued that uncertainty related to GDP growth in Poland included how permanent would be the easing of recessionary tendencies in Poland's main trading partners and exchange rate developments. Some Council members pointed out that the zloty appreciation observed over the recent months, through lowering the price competitiveness of Polish products, may be conducive to reducing the contribution of net exports to GDP growth and to extending the slowdown in the Polish economy. Those Council members argued that the same effect may be brought by the deterioration of labour market situation, including the lowering of the real aggregate wages, which may translate into curbing consumer demand. It was pointed out that another factor that had a negative impact on GDP growth was the reduction in the supply of bank loans.

At the meeting, the Council also discussed current and expected inflation developments. It was indicated that the inflation rise in July 2009 to 3.6%, i.e. above the NBP's inflation target of 2.5% and slightly above the upper limit for deviations from the target set at 3.5%, was primarily driven by a strong surge in prices of tobacco resulting from changes in the excise tax and by a further increase in fuel prices. Some Council members argued that despite the fact that inflation could remain at a heightened level in the coming period – mainly due to the relatively high annual growth of food and regulated prices – the available forecasts point to its decline in the second half of 2010, which should be supported by the negative output gap connected with the still weak external and domestic demand, continuing low wage pressure and the previous appreciation of the zloty.

Other Council members emphasised that CPI inflation in Poland is characterised by a relatively high persistence and subsequent projections were extending the horizon of inflation returning to the target, which does not support the anchoring of inflation expectations. Those members also pointed out that in line with the June projection, in 2010-2011 CPI inflation should be running below core inflation net of food and energy prices, which has not been observed since 2003. Moreover, some members of the Council argued that the slowing potential output growth combined with the improving outlook for economic growth may cause the negative output gap to close earlier than anticipated. It was also emphasised that currently both inflation and GDP growth in Poland were significantly higher than in most countries of the European Union.

The Council paid a lot of attention to the exchange rate developments, emphasising the zloty appreciation in the recent period. Some Council members indicated that the improved sentiment in the world financial markets, relatively favourable economic situation in Poland as compared to other EU countries and the access to a flexible credit line of the International Monetary Fund lowered the risk of strong zloty depreciation. At the same time, the persistently heightened volatility of the zloty exchange rate was emphasised.

Some members of the Council indicated that one factor affecting the zloty exchange rate could be the disparity of nominal interest rates between Poland and the euro area and the United States favouring – especially amidst stabilising financial market situation – the inflow of capital, which was reflected in the growing share of foreign investors in the market of Polish Treasury securities. Other Council members, however, assessed that the perspectives of capital inflow to the Central and Eastern European countries were to a greater extent influenced by the sentiment of foreign investors towards the region and by the disparity in real terms, which was significantly lower than that calculated in nominal terms.

While addressing the situation in the banking sector, on the one hand – the further reduction of lending to the corporate sector was emphasised, and on the other – the still stable increases in consumer loans to households. In this context, some Council members pointed out that banks were increasing their profit margins, which meant that lowering of the costs of newly granted loans was smaller than the scale of the implemented cuts in the NBP interest rates. In the opinion of those Council members, the monetary policy should account for shifts in profit margins resulting from the business cycle. Other members of the Council argued that in the current situation the effectiveness of the credit channel was limited, which meant that possible further interest rate cuts would have only minor effect for the supply of credit.

While analysing the situation in the banking sector, the Council also discussed the situation of cooperative banks. It was emphasised that those banks have a large local significance, among others, due to the preferential loans they offer for investments and development projects in agriculture as well as their contribution to financing local governments. It was pointed out that cooperative banks were characterised with a surplus of deposits over extended loans and a lower share of irregular loans in their credit portfolios than commercial banks, which gave cooperative banks considerable potential for lending expansion. However, in the opinion of some Council members, an increase in lending by cooperative banks called for the adoption of measures aimed at raising regulatory capital of this sector.

While discussing interest rates, some members of the Council pointed out that the real ex ante rates, i.e. rates deflated with expected inflation, remained positive, which combined with the output gap remaining negative, could justify further NBP rate cuts. Other members of the Council, however, argued that amidst large uncertainty accompanying inflation forecasts and, at the same time, its high persistence, economic agents in their decision making would to a larger extent consider the real ex post interest rates, i.e. rates deflated with current inflation, which were currently close to zero and could be expected to run at a very low level also in the months to come.

While considering the decision on interest rates, the Council assessed that the uncertainty about the outlook for inflation and economic growth in the world and in Poland justified keeping the rates unchanged at the current meeting. Some Council members believed that the risk of economic growth continuing at a low level in the longer run combined with the forecasted significant inflation decline in 2010 might justify further easing of the monetary policy in the future. Moreover, it was argued that the anticipated increase in the deficit of the public finance sector would be primarily the effect of automatic stabilisers rather than anticyclical measures introduced in the fiscal policy, which – in the opinion of those Council members – did not restrict the possibility of further monetary policy easing. Other members of the Council pointed out that the incoming data suggested that the recession in the world economy and the slowdown of growth in Poland might prove milder than previously expected. Those members argued that signs of economic recovery justified the assessment that the probabilities of inflation running above or below the inflation target in the medium term were roughly equal, while the NBP's interest rates should be kept unchanged also in the coming months.

At the meeting, the prevailing view was that the probability of inflation running below the inflation target in the medium term was higher than the probability of inflation running above the target.

The Council kept the interest rates unchanged: the reference rate at 3.50%, the lombard rate at 5.00%, the deposit rate at 2.00% and the rediscount rate at 3.75%.

Minutes of the Monetary Policy Council decision-making meeting held on 30 September 2009

During the meeting the Monetary Policy Council discussed the outlook for inflation in the context of the past, current and, primarily, anticipated economic situation.

The discussion at the meeting focused on the outlook for economic growth abroad and in Poland, the medium-term inflation outlook, fiscal policy and the situation in the banking sector.

The Council paid considerable attention to the external conditions affecting the Polish economy. It was emphasised that the data on the United States, including the growth in industrial output and retail sales, improved situation in the real estate market and a further rise in economic sentiment indicators signal recovery in the US economy. While addressing the situation in the euro area, it was pointed out that despite some improvement in economic sentiment indicators, data on the real economy indicated that recovery in the euro area would likely materialise with a certain time lag with respect to the US economy.

Some members of the Council argued that rising unemployment in the United States and in the euro area remained a risk factor to the sustainability of the recovery in the world economy. In this context, attention was drawn to the unfavourable outlook for recovery in private consumption amid deteriorating situation in the labour market in those economies and the expected fading out of fiscal stimulus packages at the end of 2010 as well as the possibility of central banks moving to the so-called exit strategy from expansionary monetary policy. Other members of the Council pointed out that additional factors having a negative bearing on the outlook for consumption in the United States included rising household savings and the private sector's limited access to mortgage loans due to the considerable decline in real estate prices in the US that triggered the crisis in the banking sector. In turn, while discussing the situation in the euro area, those members emphasised that rising imports of investment goods to China might have largely contributed to the easing of recessionary tendencies in the euro area in 2009 Q2. In the opinion of those Council members, a possible weakening of external demand following the fading out of the stimulus package in the Chinese economy was a source of risk to the sustainability of the recovery in the euro area.

While addressing the outlook for global economic growth, some members of the Council pointed out that although private consumption in the United States and in the euro area might prove weak, the rise in demand in major emerging economies, undergoing the process of real convergence and recording significantly higher GDP growth than developed countries, would translate into a sustainable recovery in the external environment of the Polish economy. Those Council members also argued that the recovery in economic activity both in the United States and the euro area would be accompanied by a gradual rise in labour productivity which might be expected in view of the fact that the crisis affecting both economies had stemmed from problems in the financial sector rather than from real economy developments. In the opinion of those Council members, GDP growth of the major economies was likely to return to their potential growth level relatively fast.

While discussing the outlook for inflation in the world economy, some members of the Council emphasised that the difficult situation in the labour market affecting major developed economies and a relatively low demand pressure, combined with the weakening of the upward trend in oil prices in August 2009, would be curbing inflation in the coming quarters.

While discussing the situation in the Polish economy, it was pointed out that data on GDP in 2009 Q2 proved slightly better than expected. At the same time it was emphasised that GDP growth mainly resulted from the positive contribution of net exports due to a smaller decline of exports than imports, amid a fall in domestic demand following from further consumption deceleration and lower investment and inventories. While addressing the data for August 2009, it was stressed, on the one hand, that the growth of industrial output and retail sales had fallen short of expectations and, on the other hand, that economic sentiment indicators had further improved.

Some Council members pointed out that the growth of exports was still negative, while the expected slight recovery in euro-area activity would probably fail to immediately translate into a significant rise in the external demand for Polish products. It was argued that a possible further appreciation of zloty exchange rate, through worsening the price competitiveness of domestic goods, might be conducive to weakening the positive contribution of net exports to GDP growth in the coming quarters. Those Council members also pointed to the persistent unfavourable situation in the labour market as a factor contributing to lower consumption and, consequently, weaker economic activity. In the opinion of those members, considering the still unfavourable outlook for private investment growth and the risk of public investment cuts in the face of public finance sector deterioration, there persisted considerable uncertainty as to the perspectives of economic growth in the Polish economy.

Other Council members, however, argued that the expected recovery in the world economy would be a factor supporting domestic GDP growth. Moreover, in the opinion of those members, the scale of labour market deterioration would not be as strong as previously anticipated, in particular due to the fact that the employment decline should be curbed by lower real wages. They assessed – as a result – that the impact of the unfavourable labour market situation on consumption would be rather limited.

While analysing inflation developments, it was pointed out that the slight inflation increase in August 2009 was primarily due to a weaker seasonal drop in food prices amid an unchanged level of core inflation net of food and energy prices. Some Council members argued that in line with the majority of available forecasts, in the next few months inflation may temporarily remain at a heightened level, yet in 2010 inflation could be expected to fall even below the inflation target. A significant drop in inflation in 2010 would be driven – in the opinion of those members – by the delayed effects of labour market deterioration resulting both in reduced consumption demand of households and slower growth of costs in enterprises. The same Council members indicated that the inflation decrease would also be supported by the recent exchange rate appreciation and the stabilisation of commodity prices in the world markets.

Other Council members emphasised that a gradual recovery of economic growth should translate into higher demand, while the negative output gap might close up earlier than anticipated. Moreover, the heightened level of inflation, including the continuing growth in the prices of services, did not confirm – in the opinion of those Council members – a significant easing of demand pressure, which could be expected considering the strong weakening of GDP growth. While addressing forecasts, those members argued that inflation in 2009 Q2 and Q3 proved markedly higher than expected in the June projection. In the opinion of those members of the Council it could also be expected that the forecast inflation decrease below the target in 2010 may prove short-lived. Those members argued that in line with the current short-term forecasts the expected inflation decrease in 2010 to a large extent was to result from a strong deceleration of food price growth, which is rather unlikely considering the average price growth in this group of goods over the past few years. Moreover, while discussing the outlook for inflation, the Council pointed to the risk of an increase of regulated prices and indirect taxes in 2010 which, on the one hand, directly translate into a rise of the general price level and, on the other hand, bring about a reduction in the purchasing power of households and an easing of the demand pressure curbing inflation.

During the discussion on the public finance sector, some Council members pointed out that the rise of the deficit and public debt in relation to GDP resulted, to a large extent, from a strong slowdown in economic growth. It was argued that other EU countries also experienced a significant increase in public finance imbalances whose scale was even greater than in Poland. Other Council members, however, emphasised that of importance to foreign investors would be the comparison of the ratios of the deficit and public debt to GDP in countries of Central and Eastern Europe, including Poland, to the respective ratios in emerging countries characterised by lower fiscal imbalances. In this context it was argued that the deteriorating fiscal stance could be contributing to a weakening of the zloty exchange rate.

While addressing the planned increase of the public finance imbalance in 2010, some discussants pointed out that a strong rise in the deficit of the public finance sector could justify monetary policy tightening. At the same time, those members pointed out that even though a rise in public spending amid low economic activity supports GDP growth, the dominant effect triggered by a recovery could be the so-called crowding out effect where private sector demand is crowded out by public expenditure. Other Council members argued that the anticipated increase in the deficit of the public finance sector would primarily be the effect of automatic stabilisers rather than anticyclical measures introduced in the fiscal policy, which did not restrict the possibility of maintaining an accommodative monetary policy.

At the meeting, the Council also discussed issues related to the banking sector. Some Council members argued that the tightening of banks' credit policy towards the corporate sector was very strong, which could lead to a considerable reduction of economic growth. In this context the Council had a discussion on improving the access to bank loans for the corporate sector by introducing new monetary policy instruments by the central bank, similarly as it is done by the world's major central banks. In the opinion of some Council members, introducing new instruments, i.e. bill discount credit and the central bank's purchase of bonds issued by commercial banks, would allow banks to increase their lending. Those members argued that the launching of new instruments could make it easier for enterprises to obtain both short-term loans, which would limit the risk of enterprises experiencing liquidity shortage, and long-term loans, which would limit the scale of investment reductions. In the opinion of those Council members, the way of implementation and the character of new instruments reduced the risk of excessive interference of the central bank in banks' credit risk management system.

Other members of the Council, however, emphasised that the reduction in bank lending was a typical phenomenon accompanying economic slowdown and resulted not only from the rationing of credit supply and the increased cost of credit but also from diminished demand for credit on the part of enterprises. During the discussion it was also pointed out that the scale of lending reduction in Poland was smaller than in other countries of Central and Eastern Europe. While addressing the measures implemented by other central banks, those Council members argued that Poland was in a better economic situation as compared to countries, which were introducing unconventional monetary policy measures. At the same time, those members emphasised that introducing the proposed instruments could in fact contribute to widening the financing gap of banks (i.e. the difference between the collected deposits and granted loans). Those members also argued that easier access to central bank funds might demotivate banks to properly assess their credit risk. Moreover, in the opinion of those Council members, the central bank should not increase the capital base of banks by issuing money, and investments in the economy should be financed primarily from savings. In the opinion of those Council members, introducing new instruments would pose the risk of excessive money creation in the economy.

While considering the decision on the interest rates, the Council assessed that the information on economic developments released since the last MPC meeting justified keeping the rates unchanged at the current meeting. Some members of the Council believed that available data – including higher than expected GDP growth in 2009 Q2 and inflation remaining above the target and above the June projection – as well as further improvement in the outlook for economic activity justified the assessment that the probabilities of inflation running above and below the inflation target in the medium term were roughly equal. Other Council members argued, however, that the uncertainty about the scale and durability of economic recovery abroad and in Poland was still high and a more comprehensive assessment of the macroeconomic situation would be possible once the Council got acquainted with the October projection of inflation and GDP. At the meeting, the prevailing view was that the probability of inflation running below the inflation target in the medium term was higher than the probability of inflation running above the target. At the same time, the majority of the Council members assessed that the probability of inflation running below the inflation target in the medium term had decreased in recent months.

The Council kept the interest rates unchanged: the reference rate at 3.50%, the lombard rate at 5.00%, the deposit rate at 2.00% and the rediscount rate at 3.75%.

Minutes of the Monetary Policy Council decision-making meeting held on 28 October 2009

During the meeting the Monetary Policy Council discussed the outlook for future inflation developments in the context of the past, current and, primarily, anticipated economic situation.

The discussion at the meeting focused on the outlook for economic growth in the world and in the Polish economy, on current inflationary processes in Poland and the situation in the credit market. The Council discussed the influence of these factors on future inflation in Poland against the background of the October projection of inflation and GDP.

While assessing the global economic situation, some members of the Council emphasised that the improvement in economic climate in the euro-area economy was relatively small and the forecast economic growth in the region remained considerably below potential. Those members also pointed out that the improved economic climate in the United States and in China was to a large extent rooted in the stimulus packages, and that the prospective gradual removal of such measures kept up the uncertainty about the sustainability of global economic recovery. In particular, those members stressed the uncertainty surrounding private consumption recovery in the United States amid the still deteriorating situation in the

US labour market. Moreover, some Council members assessed that the drop in private consumption in the United States connected, among others, with households' limited possibilities of taking out loans, including mortgage loans incurred to finance consumption, will not be offset by a rise in household consumption in emerging countries, even if the revived growth in these economies was sustained. In this context, those members pointed to the risk of slow economic growth persisting worldwide.

Other Council members assessed that the recovery in emerging economies, including, in particular, Asian countries, may be an important factor conducive to an economic revival all over the world. Those members indicated that the accelerated growth in emerging economies will be feeding through into the world economy mainly through the rise in those countries' demand for investment goods, exported, to a large extent, by the developed countries of Western Europe. In the opinion of those Council members, the current recovery in Asia may be marking the beginning of these economies' return to the potential growth path which may run at a relatively high level due to the ongoing process of real convergence in these economies.

While discussing the outlook for economic growth in Poland, some Council members assessed that the Polish economy had already entered the phase of recovery, although some of them emphasised that this recovery may prove relatively slow. At the same time it was pointed out that the October projection forecast only a slight acceleration of growth in 2010. It was emphasised that the relatively low GDP growth may be the result of a drop in real disposable income of households connected with a rise in unemployment and a decline in real wages as well as more difficult access to credit. Some Council members assessed that the latest macroeconomic data, including those on exports, output and retail sales, did not indicate unambiguously the beginning of a sustainable recovery in the Polish economy.

While discussing current inflation developments, it was pointed out that, despite the fact that in September 2009 inflation had fallen to 3.4%, i.e. below the upper limit for deviations from the inflation target (3.5%), it might nevertheless continue at a heightened level in the near future. This high level of inflation would be driven primarily by the positive base effect connected with a strong drop in fuel prices at the end of 2008. Some members of the Council pointed to the continuation of the relatively high level of core inflation, including the persistently high growth of prices of services. It was pointed out that Poland was one of the three EU countries with highest inflation. Other Council members argued that the difference in the levels of inflation in Poland and in other EU countries was connected with a smaller scale of economic activity weakening in Poland and with the process of price convergence of the Polish economy to price levels recorded in developed Western European economies.

While discussing the outlook for inflation in Poland, the Council addressed the projection and the short-term inflation forecasts of the NBP which foresee inflation declining below the inflation target of 2.5% in the middle of 2010. In the opinion of some members of the Council this course of future inflation will follow from weaker consumption demand, persistently low wage pressure and the appreciation of nominal zloty exchange rate so far. Those members also pointed out that the October projection indicated a higher risk of inflation declining in 2010 below the lower limit for deviations from the inflation target of the NBP (1.5%) than the June projection.

Other Council members indicated that the discrepancy between the short-term forecasts of core inflation, food and energy prices and their forecasts in the October projection pointed to a significant uncertainty as to the path of inflation in the coming quarters. In particular, some Council members assessed that the growth of food prices in the nearest future may prove higher than in the October projection. Those members additionally pointed to recently observed oil-price rises in the world markets and to the uncertainty about natural gas prices in Poland. Moreover, some Council members argued that the recovery in emerging economies, where economic growth raises the demand for raw materials, may be conducive to a resurge in the prices of agricultural and energy commodities in the world markets, especially in a situation where no limits exist on open investment positions in some forward commodity markets. In the opinion of those Council members, this may lead to higher inflation around the world and in Poland. At the meeting the Council also discussed the risk of increases of administered prices in 2010, including the prices decided by local authorities, resulting from the unfavourable situation of the public finance sector.

While addressing the outlook for inflation in 2011, some members of the Council pointed out that, in line with the October projection the probabilities of inflation running below and above the inflation target were similar towards the end of the projection horizon. Moreover, some Council members argued that, following a drop to a low level foreseen in the middle of 2010, inflation would be steadily increasing till the end of the projection horizon. Other Council members, on the other hand, emphasised that for the most part of the projection horizon the probability of inflation running below the target was higher than the probability of its running above the target. Those members indicated that 2011 inflation being higher in the October projection than in the June projection was partially a result of a positive base effect connected with a deeper decline in food prices forecast for 2010. They also emphasised the issue of the optimal forecast horizon in central banks pursuing inflation targeting and stressed that the limited projection horizon increased the uncertainty about the durability of inflation changes in the final period of the forecast horizon.

While discussing the future exchange rate and its impact on inflation in Poland, it was pointed out that the projection assumed a gradual depreciation of the zloty exchange rate, which was connected with a decreasing real interest rate disparity, the persistently high budget deficit and growing public debt. Some Council members, however, pointed to the possibility of zloty exchange rate appreciation, which could be supported by Poland's relatively favourable economic situation as compared to other EU countries and the continuously high surplus liquidity in the global financial markets. Moreover, in the opinion of those Council members, should the recovery in emerging markets come faster than in developed economies, emerging economies' currencies, including the zloty, could be expected to appreciate. Those members further emphasised that the potential zloty appreciation would be conducive to lower economic growth and lower inflation in the Polish economy than those accounted for in the October projection.

Other Council members, however, assessed that an appreciation of the zloty exchange rate significantly exceeding the appreciation of the equilibrium exchange rate was unlikely in case the growth of the Polish economy remained close to the October projection of GDP. Those members pointed out that the zloty could depreciate due to a possible increase in the risk premium, which in turn might be driven by an unfavourable situation of the public finance sector, a lack of structural reforms in the Polish economy and Poland's postponed adoption of the euro.

While analysing the situation in the credit market, some members of the Council assessed that it was still deteriorating, which was, among others, indicated by a further decline in the growth of credit to households and very low growth of credit to enterprises. Other members of the Council, however, pointed to the fact that in September 2009 the value of granted loans in month-on-month terms had risen for the first time in five months, both in the case of loans to households and to enterprises.

Moreover, some Council members emphasised that the slow growth of loans to enterprises was connected with their relatively good financial results and with their curbing their investment activity, and any recovery in lending to the enterprise sector might come only once the outlook for growth in the Polish economy significantly improved. Other Council members argued that reduced lending was, on the one hand, connected with households being more cautious while incurring liabilities amid slowing economic growth and rising unemployment, and, on the other hand, with an increased credit risk perceived by banks as indicated, among others, by the tightening of loan terms in the segment of consumer loans introduced in 2009 Q3 as well as planned for the future.

While discussing real interest rates in the context of the credit market situation, some Council members indicated that real interest rates remaining at a relatively low level for too long in a country undergoing real convergence may be increasing the risk of a credit boom in the medium term. Those members pointed out that real interest rates were currently lower than the equilibrium interest rate for the Polish economy. At the same time, those members suggested that the expected inflation decrease should translate into an increase in real interest rates, which in turn should be conducive to a rise in household saving following a strong decline in 2009 Q1, as well as to curbing the risk of excessive lending growth.

While considering the decision on interest rates, the Council concluded that the information on the economic situation released since the last meeting warranted keeping the interest rates unchanged at the current meeting. Some members of the Council were of the opinion that in the conditions of continuing uncertainty about the recovery in the world economy and about the outlook for economic growth in Poland, as well as in the light of the October inflation projection predicting inflation to be below the NBP inflation target for the most part of the projection horizon, it was justified to assess that in the medium term the probability of inflation running below the inflation target was higher than the probability of inflation overshooting the target. Other members of the Council argued that the recovery in the world and Polish economies combined with the risk of commodity price increases in the world markets and administered price rises in Poland, as well as the balanced probabilities of inflation running above or below the inflation target in the final period of the October projection, warranted the assessment that the probabilities of inflation in the medium term running below or above the inflation target were balanced. The majority of Council members judged the probability of inflation running below or above the inflation target to be balanced in the medium term. In the assessment of some Council members balanced risks to future inflation should indicate that the interest rates in the coming months would remain unchanged, which does not rule out the possibility of their adjustment in case of developments that would significantly affect the outlook for inflation and economic growth.

The Council kept the interest rates unchanged: the reference rate at 3.50%, the lombard rate at 5.00%, the deposit rate at 2.00% and the rediscount rate at 3.75%.

Minutes of the Monetary Policy Council decision-making meeting held on 25 November 2009

During the meeting the Monetary Policy Council discussed the outlook for future inflation developments in the context of the past, current and, primarily, anticipated economic situation.

The discussion at the meeting focused on the outlook for economic growth abroad and in Poland, inflationary processes in Poland and the situation in the labour and credit markets.

While assessing the situation in developed economies, it was pointed out that following several quarters of decline 2009 Q3 brought a rise in GDP in the United States and in the euro area, including Germany, Italy and France, i.e. major markets for Polish exports. Yet, it was emphasised that the recovery in those economies was, to a large extent, the effect of government stimulus packages. It was assessed that the prospective discontinuation of these measures was accompanied by a risk of decline in economic activity in those countries, mainly due to a possible fall in private consumption growth. It was pointed out that economic growth in the United States and in the euro area was also negatively affected by a decline in corporate loans and, in the longer term also by the deteriorating situation of the public finance sector.

While analysing the situation in emerging economies, some members of the Council pointed out that the recovery in those economies might not be sufficient to boost global GDP growth considerably. Those members also noted that although private consumption in China might be expected to accelerate in the coming period this would be unlikely to compensate for the impact of a possible consumption decline in the United States on global economic growth due to a low level of private consumption in China relative to global demand. An important factor curbing growth in consumption expenditure in this country is the absence of a universal social security system, as a result of which an important part of household income is saved.

While discussing the outlook for domestic economic growth, it was assessed that the Polish economy had already entered the phase of recovery, which was confirmed, among other things, by increasing industrial output growth and very good financial results of enterprises in 2009 Q3. It was also indicated that the recovery abroad (particularly in the euro area) contributed to growth in Polish exports in 2009 Q3, as indicated by the data for the past three months. Some members of the Council believed that the recovery would be relatively slow, and argued that in the coming period economic growth in Poland might likely be curbed by a renewed deterioration in global economic climate. In the opinion of those Council members, GDP growth in Poland would be negatively affected also by such factors as: the deteriorating situation in the labour market, including rising unemployment and the fall in real wages in the enterprise sector, the decline in corporate loans and lending to households growing more slowly than in the last years, as well as the difficult situation of the public finance sector.

In the opinion of other members of the Council, GDP growth in Poland dropping notably again was very unlikely even in the event of a considerable deterioration in the global economy. They argued that the scale of GDP growth decline in Poland due to the global financial crisis was considerably smaller than in other European Union countries, and emphasised that despite the absence of government stimulus packages of a scale comparable to those implemented abroad GDP growth in Poland remained positive. It was assessed that the relatively high resilience of the Polish economy to unfavourable external shocks – the turmoil in the global financial markets and the recession abroad – was, among other things, the result of a low credit-to-GDP ratio and the economy's lower degree of openness as compared to other EU countries, as well as of the dynamic development of the service sector (less dependent on global economic developments) observed in the past few years. It was also emphasised that the relatively small scale of economic slowdown was largely due to a marked decrease in the NBP interest rates as well as the depreciation of the zloty exchange rate.

While addressing the labour market situation, members of the Council pointed to persisting unfavourable trends, including in particular the growth in registered unemployment and the continuing negative annual employment growth, as well as the decline in real wages in the enterprise sector in October 2009. Some members of the Council pointed out that in the light of the October projection of the NBP, nominal wage growth in subsequent quarters would decline further. Moreover, some members of the Council argued that due to lags in the adjustment of employment to the pace of economic growth and a likely increase in labour supply, unemployment could increase further in the coming period despite economic recovery. They assessed that rising unemployment would be conducive to lowering the inflationary pressure through weaker consumer demand and limited wage pressure. At the same time, some members of the Council pointed out that rising unemployment might, due to the hysteresis effect, negatively affect the potential GDP growth in the coming period.

While analysing the relationship between inflation and labour market developments, some members of the Council emphasised that elevated inflation contributed to lowering real wages, facilitating their adjustment to falling labour productivity growth. In the opinion of those Council members, relatively high flexibility of real wages helped to reduce the scale of decline in Poland's GDP growth amid the global recession. They also pointed to the so-called labour hoarding, consisting in incomplete adjustment of employment (i.e. reduced lay-offs) during an economic slowdown. On the other hand, they emphasised that via indexation increased inflation contributed to wage growth in the public finance sector as well as to growth in disability and old-age pension benefits, which, in the short term, is conducive to deepening the deficit of the public finance sector. In the opinion of those members of the Council, rising social benefits driven by indexation amid a concurrent decline in wage growth in the economy reduced work attractiveness and might negatively affect the economic activity of Poles. They also made reference to the data on wages in the national economy which in the first three quarters of 2009 – unlike in the previous period – showed higher annual growth than wages in the enterprise sector. According to those Council members, this might indicate that the share of this sector in the national economy was declining and, consequently, that the changes in wages in the enterprise sector – where wages are largely dependent on cyclical conditions – might in the future affect wage developments in the economy to a lesser extent than previously had been the case.

While discussing inflation developments, it was pointed out that in October 2009 annual CPI decreased to 3.1%, which was primarily the result of slower growth of food and energy prices; at the same time, core inflation (net of food and energy prices) remained at 2.9%. Some Council members emphasised that core inflation continuing at a heightened level was the effect, among other things, of steady growth in the prices of services. Those members assessed that the gradual increase in the demand for services observed over the recent years, which resulted in a growing share of this spending category in the basket of consumer goods and services, would also continue in the coming years, and so the prices of services would be exerting a growing impact on CPI developments. They emphasised that core inflation had not been falling despite a clearly negative output gap and pointed out that the current level of annual core inflation rate could still be to some extent influenced by the high demand pressure observed in the previous period. Other members of the Council stressed, however, that elevated CPI inflation was to a considerable degree driven by unfavourable price shocks, including in particular the administered price increases implemented in 2009. Some Council members also pointed to the reduced scale of decline in the prices of goods strongly affected by globalisation recorded in the recent months, which was partially connected with the earlier zloty exchange rate depreciation.

While discussing the outlook for inflation, it was pointed out that in the near term the annual CPI would develop largely under the influence of statistical base effects: first, a positive one – connected with a strong decline in fuel prices at the end of 2008, and then, a negative one – connected with considerable increases in administered prices and food price rises at the beginning of 2009 (provided the lack of equally strong administered price increases in 2010). Due to the former effect inflation would rise temporarily in the nearest future, while the latter effect would be conducive to its decrease next year. Some Council members indicated that in 2010 a drop in CPI inflation below the NBP inflation target could be expected as the negative output gap would likely persist. Another factor conducive to decreasing inflation could be the appreciation of the zloty so far. Other Council members pointed out that the inflation decline might be curbed by indirect tax and administered price increases. They also argued that inflation might prove higher than currently expected in the event of unfavourable price shocks in the commodity or food markets, or zloty exchange rate depreciation. In the opinion of those Council members in the longer term the inflationary pressure would be largely determined by labour and credit market situation.

While addressing the current situation in the domestic credit market, its further deterioration was highlighted, including especially the negative annual growth of lending to enterprises (adjusted for the impact of zloty exchange rate fluctuations) observed in October for the first time since 2004, and the fact that the growth of lending to households was persistently slower than in the preceding years. Some Council members argued that the reduction in the supply of credit to enterprises contributed to curbing corporate investment, which in turn adversely affected GDP growth. Other Council members, however, assessed that reduced lending was to a large extent attributable to the limited demand for credit resulting from the economic slowdown. They emphasised that in view of the data on financial results of enterprises in 2009 Q3, the liquidity of this sector remained relatively high, allowing firms to finance their current operations to a large extent with their own funds, and thus constrained their borrowing needs. They also pointed out that lending to households was still growing.

The Council also analysed the development of the credit market in the longer-term perspective. Some members of the Council emphasised that the credit-to-GDP ratio in Poland in the period preceding the global financial crisis had been among the lowest in the EU. Other Council members underlined that in the past few years this ratio had increased significantly. They argued that, even though the rapid credit expansion in the years preceding the global crisis had largely resulted from the convergence process, in the longer term sustaining such fast lending growth could lead to growing credit market imbalances. They assessed that the current slowdown in lending was to a large extent a cyclical phenomenon and that it would be conducive to a more balanced lending growth. Those members argued that the recovery in economic growth would give a new momentum to lending growth in connection with the convergence process and due to demographic changes leading to a rising demand for mortgage loans. In the assessment of those Council members, the current situation in the credit market did not necessitate the introduction of any additional instruments to support lending growth.

While discussing the policy mix abroad and in Poland, some Council members pointed out that expansionary fiscal policies in many countries led to rising public debt levels which – amid efforts to sustain price stability – could only be halted by strong fiscal tightening. At the same time, however, low real interest rates around the world, driven by loose monetary policy, limited the current costs of financing public debt, thus weakening the incentives to implement reforms aimed at the improvement of the primary balance of the public finance sector. In this context, those members emphasised the need for introducing measures that would curb the expansion of public debt in Poland.

The Council assessed that the data on the economic situation in Poland and abroad released since its last meeting warranted maintaining the interest rates unchanged at the current meeting.

The Council kept the interest rates unchanged: the reference rate at 3.50%, the lombard rate at 5.00%, the deposit rate at 2.00% and the rediscount rate at 3.75%.

Minutes of the Monetary Policy Council decision-making meeting held on 23 December 2009

During the meeting the Monetary Policy Council discussed the outlook for future economic growth and inflation in Poland, the monetary policy conducted by the Monetary Policy Council in its second term of office, and determinants of monetary policy in subsequent years.

While discussing the outlook for global economic growth, some members of the Council assessed the scale and sustainability of global economic revival as largely uncertain. Those members emphasised that improved activity to-date in the largest developed economies had been, to a large extent, the effect of fiscal stimulus packages. Those members also pointed out that, in line with economic growth outlook for 2010, strong GDP growth could be expected in Asian and Latin American economies as well as further improvement in economic activity in the United States with relatively lower GDP growth in European economies.

As regards the situation in the Polish economy, it was emphasised that the in-coming data, including data on export, industrial output and construction and assembly production, as well as economic situation indices illustrating enterprises' and households' sentiment confirmed the gradual recovery. However, some of the members pointed to risk factors underlying a prompt and sustained revival of the Polish economy. In particular, those members pointed to reduced lending to enterprises and a decline in loan growth to households, as well as to the persistence of an unfavourable situation in the interbank market, reflected in elevated spreads between the NBP reference rate and WIBOR rates. Those members also drew attention to the quick buildup of public debt and argued that its high level could adversely affect economic growth in the medium term.

While discussing current and future inflation the Council members pointed to the decrease in core inflation net of food and energy prices from 2.9% in October to 2.8% in November 2009. Some of the members were of the opinion, however, that core inflation stood at a relatively high level, which, given a likely improvement in global economic situation that potentially could trigger a rise in world prices for agricultural and energy commodities, posed a risk to maintaining inflation at the target in the medium term. However, other members maintained that given the persistence of the negative output gap in the Polish economy, a fall of inflation could be expected in subsequent quarters. Moreover, some members of the Council stressed that the risk of increased inflationary pressure in the Polish economy in the near future would be additionally contained by the still unfavourable situation in the labour market, despite some signals of improvement in recent months.

While discussing the effects of the monetary policy conducted by the Council in its second term of office, some members argued that the elevated CPI inflation in the years 2008-2009 indicated that in the earlier period the level of interest rates may not have fully accounted for future inflation risk. According to those members their view was supported by the persistence of relatively high core inflation in recent quarters, including the fast growth of market services prices. In their opinion, the key factors conducive to lower inflationary pressure in 2008-2009 and thus contributing to limiting inflation's deviation from the inflation target were the appreciation of the zloty in the period preceding the outbreak of the global financial crisis and the crisis-related decline of prices of agricultural and energy commodities in global markets.

Other members pointed to the fact that elevated inflation in recent years was mainly connected with factors beyond the direct control of domestic monetary policy. Those members argued that the strong rise in prices of agricultural and energy commodities in global markets at the end of 2007 and in the first half of 2008, which led to a rise in inflation in a number of countries, including Poland, was, among other things, connected with a quick increase in demand from emerging economies and legislative changes in the United States which excluded trade in commodity futures from the supervision of public institutions. They also stressed that the crisis-driven zloty depreciation which significantly exceeded the depreciation of the equilibrium exchange rate was conducive to the rise in inflation in Poland in 2009. Among the factors that had significantly influenced prices in the Polish economy, including their faster growth in recent years, the members indicated price liberalisation in certain domestic markets and increases of indirect taxes and administered prices. Those members also stressed that in that period there had been a very quick increase in loans in the Polish economy, which was connected with a strong inflow of capital to emerging markets.

It was stressed that the rise in the prices of services, which contributed to increasing inflation in Poland in 2008-2009, had probably been connected with changes in the structure of private consumption and was characteristic of countries undergoing the process of convergence.

When discussing the monetary policy conducted in the years 2004-2009, the members pointed out that one of the factors confirming the effectiveness of the policy was the fact that it had anchored inflation expectations at a low level. Some of the members also argued that given the lags between changes in NBP interest rates and their strongest impact on economic processes a comprehensive assessment of the monetary policy conducted by the MPC in its second term of office should account for inflation developments in 2010-2011. In this context the members of the Council pointed out that most forecasts available show a strong fall of inflation in 2010. They also argued that attempting to fully neutralise the impact of price shocks in global commodity markets on inflation in Poland would have led to excessive GDP fluctuations in Poland, including a likely GDP decrease after the outbreak of the global economic crisis.

While discussing the effects of the monetary policy conducted by the Council in its second term of office against the background of other countries, some MPC members pointed to the fact that in the years 2004-2009, in addition to shocks that impacted the world economy as a whole, such as commodity shocks and the global economic crisis, the Polish economy also underwent large changes connected with the accession to the European Union. Those members pointed to the fact that despite these shocks, inflation's average deviation from the target (0.3 p.p.), the volatility of the output gap and of central bank interest rates in Poland in 2004-2009 were among the smallest in countries which pursued inflation targeting with a continuous inflation target.

While discussing the monetary policy in the coming years, some members of the Council argued that an excessive rise in lending, in particular a rise in the market for mortgage loans, could pose a threat to price stability in the Polish economy over a longer time horizon. In addition, those members stressed that if the credit boom risk increased significantly, monetary policy would have to be tightened in Poland regardless of the relatively low CPI inflation. Since interest rate rises themselves would not eliminate the credit boom risk they should be complemented with appropriate supervisory measures.

While referring to the decisions on interest rates in the coming months the Council pointed out that in view of the low inflation pressure and the persisting threats to the sustainability of economic recovery in Poland, NBP interest rates should be left at an unchanged level in the near future. At the same time it was emphasised that in case of a significant economic revival in Poland, accompanied by a significant increase in inflationary pressure, a change to the monetary policy parameters could be required. Too strong and premature a monetary policy tightening in a situation of over-liquidity in global financial markets could, however, result in an excessive appreciation of the zloty. The situation of public finances will be an important conditioning factor to monetary policy.

The Council concluded that leaving the interest rates unchanged was justified by the information about the Polish and global economic situation that had been released since the previous meeting.

The Council left the interest rates at an unchanged level: reference rate at 3.50%, lombard rate at 5.00%, deposit rate at 2.00% and rediscount rate at 3.75%.

At the same time, the Council decided to introduce, starting on 1 January 2010, the discount rate on bills of exchange accepted from commercial banks for discount at the NBP. The Council set the discount rate at 4.00% on an annual basis.

Appendix 6

Voting records of Monetary Policy Council members on motions and resolutions in 2009

- **Date:** 27 January 2009

  Subject matter of motion or resolution:

  Resolution on the level of the reference rate, lombard rate, deposit rate and rediscount rate of the National Bank of Poland

  MPC decision:

  The MPC lowered the interest rates by 0.75 percentage points.

  Voting of the MPC members:

  For: S. Skrzypek
J. Czekaj
S. Nieckarz
M. Noga
S. Owsiak
M. Pietrewicz
A. Sławiński

  Against: D. Filar
H. Wasilewska-Trenkner
A. Wojtyna

- **Date:** 27 January 2009

  Subject matter of motion or resolution:

  Motion to lower the NBP interest rates by 0.50 percentage points

  MPC decision:

  The motion to lower the NBP interest rates by 0.75 percentage points was passed, therefore the motion to lower the NBP interest rates by 0.50 percentage points was not put to voting.

- **Date:** 27 January 2009

  Subject matter of motion or resolution:

  Motion to lower the NBP interest rates by 0.25percentage points

  MPC decision:

  The motion to lower the NBP interest rates by 0.75 percentage points was passed, therefore the motion to lower the NBP interest rates by 0.25 percentage points was not put to voting.

- **Date:** 25 February 2009

  Subject matter of motion or resolution:

  Motion to lower the NBP interest rates by 0.50 percentage points

  MPC decision:

  Motion did not receive a majority vote.

  Voting of the MPC members:

For:	S. Skrzypek	Against:	J. Czekaj
	S. Nieckarz		D. Filar
	M. Pietrewicz		M. Noga
			S. Owsiak
			A. Sławiński
			H. Wasilewska-Trenkner
			A. Wojtyna

- **Date:** 25 February 2009

  Subject matter of motion or resolution:

  Resolution on the level of the reference rate, lombard rate, deposit rate and rediscount rate of the National Bank of Poland

  MPC decision:

  The MPC lowered the interest rates by 0.25 percentage points.

  Voting of the MPC members:

For:	S. Skrzypek	Against:	D. Filar
	J. Czekaj		M. Noga
	S. Nieckarz		A. Wojtyna
	S. Owsiak		
	M. Pietrewicz		
	A. Sławiński		
	H. Wasilewska-Trenkner		

- **Date:** 25 March 2009

  Subject matter of motion or resolution:

  Resolution on the level of the reference rate, lombard rate, deposit rate and rediscount rate of the National Bank of Poland

  MPC decision:

  The MPC lowered the interest rates by 0.25 percentage points (due to tie vote, the Chairman's casting vote was decisive).

  Voting of the MPC members:

For:		Against:	
	S. Skrzypek		D. Filar
	J. Czekaj		M. Noga
	S. Nieckarz		A. Sławiński
	S. Owsiak		H. Wasilewska-Trenkner
	M. Pietrewicz		A. Wojtyna

- **Date:** 7 April 2009

  Subject matter of motion or resolution:

  Resolution to submit to the Constitutional Tribunal an opinion concerning the importance of the National Depository for Securities (KDPW S.A.) and changes in the composition of its shareholders

  Voting of the MPC members:

For:		Against:	
	J. Czekaj		S. Skrzypek
	D. Filar		
	S. Nieckarz		
	M. Noga		
	S. Owsiak		
	M. Pietrewicz		
	A. Sławiński		
	H. Wasilewska-Trenkner		
	A. Wojtyna		

- **Date:** 22 April 2009

  Subject matter of motion or resolution:

  Resolution on approving the Annual Financial Report of the National Bank of Poland prepared as of 31 December 2008

  Voting of the MPC members:

For:		Against:	
	S. Skrzypek		
	J. Czekaj		
	D. Filar		
	S. Nieckarz		
	M. Noga		
	S. Owsiak		
	M. Pietrewicz		
	A. Sławiński		
	H. Wasilewska-Trenkner		

A. Wojtyna was absent from the vote

- **Date:** 29 April 2009

  Subject matter of motion or resolution:

  Resolution amending resolution on setting the ceiling for liabilities arising from loans and credits drawn by the NBP at foreign banking and financial institutions

  Voting of the MPC members:

For:		Against:
	S. Skrzypek J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	

- **Date:** 29 April 2009

  Subject matter of motion or resolution:

  Resolution on the stance of the Monetary Policy Council on the IMF Flexible Credit Line

  Voting of the MPC members:

For:		Against:
	S. Skrzypek J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	

- **Date:** 13 May 2009

  Subject matter of motion or resolution:

  Resolution on the evaluation of the activities of the NBP Management Board as regards the implementation of the Monetary Policy Guidelines for the Year 2008.

  Voting of the MPC members:

For:		Against:
	S. Skrzypek J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	

- **Date:** 13 May 2009

  Subject matter of motion or resolution:

  Resolution on approving the Report on Monetary Policy Implementation in 2008.

  Voting of the MPC members:

For:		Against:
	S. Skrzypek	
	J. Czekaj	
	D. Filar	
	S. Nieckarz	
	M. Noga	
	S. Owsiak	
	M. Pietrewicz	
	A. Sławiński	
	H. Wasilewska-Trenkner	
	A. Wojtyna	

- **Date:** 26 May 2009

  Subject matter of motion or resolution:

  Resolution on approving the Report on the Operations of the National Bank of Poland in 2008.

  Voting of the MPC members:

For:		Against:
	S. Skrzypek	
	D. Filar	
	S. Nieckarz	
	M. Noga	
	S. Owsiak	
	M. Pietrewicz	
	A. Sławiński	
	H. Wasilewska-Trenkner	
	A. Wojtyna	

J. Czekaj was absent from the vote

- **Date:** 27 May 2009

  Subject matter of motion or resolution:

  Resolution changing the resolution on the rate of reserve requirement of banks and the interest rate on the reserve requirement.

  Voting of the MPC members:

For:		Against:
	S. Skrzypek	
	J. Czekaj	
	D. Filar	
	S. Nieckarz	
	M. Noga	
	S. Owsiak	
	M. Pietrewicz	
	A. Sławiński	
	H. Wasilewska-Trenkner	
	A. Wojtyna	

- **Date:** 24 June 2009

  Subject matter of motion or resolution:

  Resolution on the level of the reference rate, lombard rate, deposit rate and rediscount rate of the National Bank of Poland.

  MPC decision:

  The MPC lowered the interest rates by 0.25 percentage points (due to tie vote, the Chairman's casting vote was decisive).

  Voting of the MPC members:

For:		Against:	
	S. Skrzypek		D. Filar
	J. Czekaj		M. Noga
	S. Nieckarz		A. Sławiński
	S. Owsiak		H. Wasilewska-Trenkner
	M. Pietrewicz		A. Wojtyna

- **Date:** 29 July 2009

  Subject matter of motion or resolution:

  Motion to change the assessment of the probability of achieving the inflation target in the Information from the meeting of the Monetary Policy Council held on 28–29 July 2009.

  MPC decision:

  The motion was not passed (due to tie vote, the Chairman's casting vote was decisive).

  Voting of the MPC members:

For:		Against:	
	D. Filar		S. Skrzypek
	M. Noga		J. Czekaj
	A. Sławiński		S. Nieckarz
	H. Wasilewska-Trenkner		S. Owsiak
	A. Wojtyna		M. Pietrewicz

- **Date:** 25 August 2009

  Subject matter of motion or resolution:

  Resolution on the Monetary Policy Council's position (concerning the Draft Ordinance of the Council of Ministers on establishing the National Coordination Committee for the Euro, the Coordination Council and Interinstitutional Working Groups for Preparing Euro Adoption by the Republic of Poland).

  Voting of the MPC members:

For:		Against:	
	S. Skrzypek		
	J. Czekaj		
	D. Filar		
	S. Nieckarz		
	M. Noga		
	S. Owsiak		
	M. Pietrewicz		
	A. Sławiński		
	H. Wasilewska-Trenkner		
	A. Wojtyna		

- **Date:** 26 August 2009

  Subject matter of motion or resolution:

  Motion to change the assessment of the probability of achieving the inflation target in the Information from the meeting of the Monetary Policy Council held on 25–26 August 2009.

  MPC decision:

  The motion was not passed (due to tie vote, the Chairman's casting vote was decisive).

  Voting of the MPC members:

  For: D. Filar
  M. Noga
  A. Sławiński
  H. Wasilewska-Trenkner
  A. Wojtyna

  Against: S. Skrzypek
  J. Czekaj
  S. Nieckarz
  S. Owsiak
  M. Pietrewicz

- **Date:** 29 September 2009

  Subject matter of motion or resolution:

  Resolution on setting the ceiling for liabilities arising from loans and credits drawn by the NBP at foreign banking and financial institutions.

  Voting of the MPC members:

  For: S. Skrzypek
  J. Czekaj
  D. Filar
  S. Nieckarz
  M. Noga
  S. Owsiak
  M. Pietrewicz
  A. Sławiński
  H. Wasilewska-Trenkner
  A. Wojtyna

  Against:

- **Date:** 30 September 2009

  Subject matter of motion or resolution:

  Resolution on adopting *Monetary Policy Guidelines for 2010.*

  Voting of the MPC members:

  For: S. Skrzypek
  J. Czekaj
  D. Filar
  S. Nieckarz
  M. Noga
  S. Owsiak
  A. Sławiński
  A. Wojtyna

  Against:

M. Pietrewicz and H. Wasilewska - Trenkner did not participate in the voting.

- **Date:** 28 October 2009

  Subject matter of motion or resolution:

  Motion to maintain the style of communication so far used in the press release from decision-making meetings of the Monetary Policy Council (variants of assessment of probabilities for the path of inflation in relation to the target).

  MPC decision:

  Motion did not receive a majority vote.

  Voting of the MPC members:

For:		Against:	
	S. Skrzypek		J. Czekaj
	S. Owsiak		D. Filar
	M. Pietrewicz		S. Nieckarz
			M. Noga
			A. Sławiński
			H. Wasilewska-Trenkner
			A. Wojtyna

- **Date:** 25 November 2009

  Subject matter of motion or resolution:

  Motion to amend Resolution of the Monetary Policy Council No. 20/2008 of 23 December 2008 on the rules of conducting open market operations to the effect that the Resolution specifies the type of securities eligible for purchase/sale by the NBP in the secondary market within the framework of structural operations.

  MPC decision:

  Motion did not receive a majority vote.

  Voting of the MPC members:

For:		Against:	
	D. Filar		S. Skrzypek
	M. Noga		J. Czekaj
	A. Sławiński		S. Nieckarz
	A. Wojtyna		S. Owsiak
			M. Pietrewicz
			H. Wasilewska-Trenkner

- **Date:** 15 December 2009

  Subject matter of motion or resolution:

  Resolution on approving the *Financial Plan of the National Bank of Poland for 2010.*

  Voting of the MPC members:

For:		Against:	
	S. Skrzypek		
	J. Czekaj		
	D. Filar		
	S. Nieckarz		
	M. Noga		
	S. Owsiak		
	M. Pietrewicz		
	A. Sławiński		
	H. Wasilewska-Trenkner		
	A. Wojtyna		

- **Date:** 15 December 2009

Subject matter of motion or resolution:

Resolution amending the resolution on accounting principles, the structure of assets and liabilities in the balance sheet and profit and loss account of the National Bank of Poland.

Voting of the MPC members:

For:		Against:
	S. Skrzypek	
	J. Czekaj	
	D. Filar	
	S. Nieckarz	
	M. Noga	
	S. Owsiak	
	M. Pietrewicz	
	A. Sławiński	
	H. Wasilewska-Trenkner	
	A. Wojtyna	

- **Date:** 23 December 2009

Subject matter of motion or resolution:

Resolution on the level of the reference rate, lombard rate, deposit rate, rediscount rate and discount rate of the National Bank of Poland.

MPC decision:

The Council decided to introduce, beginning 1 January 2010, the discount rate on bills of exchange accepted from commercial banks for discount at the NBP. The Council set the discount rate at 4.00% on an annual basis.

Voting of the MPC members:

For:		Against:
	S. Skrzypek	
	J. Czekaj	
	D. Filar	
	S. Nieckarz	
	M. Noga	
	S. Owsiak	
	M. Pietrewicz	
	A. Sławiński	
	H. Wasilewska-Trenkner	
	A. Wojtyna	