

NBP

Narodowy Bank Polski

Monetary Policy Council

Report on monetary policy implementation in 2013



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In 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 (Narodowy Bank Polski), 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 implemented strategy of monetary policy, a description of macroeconomic conditions and decisions taken with respect to monetary policy in the reported year, as well as a description of the applied monetary policy tools.

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.

An ex post assessment of the conduct of monetary policy should take into account, above all, that 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 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 in the medium term.

This *Report on monetary policy implementation in 2013* is a translation of the publication of Narodowy Bank Polski entitled *Sprawozdanie z wykonania założeń polityki pieniężnej na rok 2013*. In case of discrepancies, the original prevails.

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1. Monetary policy strategy in 2013

In 2013, the Monetary Policy Council pursued monetary policy according to the principles included in *Monetary Policy Guidelines for 2013*, adopted on 18 September 2012, whose main elements are quoted below.

According to Article 227 section 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 (Narodowy Bank Polski) of 29 August 1997 states in Article 3 section 1 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 the pursuit of the basic objective of the NBP”.

Nowadays central banks understand price stability as inflation so low as not to negatively affect decisions taken by economic agents, including investment and savings decisions. Ensuring price stability is a fundamental way in which the central bank contributes to high and sustainable economic growth. In pursuit of the task of maintaining price stability, central banks respond both to inflationary and deflationary threats.

Since 1998 the Monetary Policy Council has based its monetary policy on inflation targeting (IT). Beginning 2004, the Council adopted a permanent inflation target of 2.5% with a symmetrical tolerance band for deviations of ± 1 percentage point. The Council pursues the strategy under a floating exchange rate regime. However, the floating exchange rate regime does not rule out foreign exchange interventions should they turn out necessary to ensure domestic macroeconomic and financial stability, which is conducive to meeting the inflation target in the medium term.

The experience of NBP and other central banks shows that the IT strategy is an effective tool to ensure price stability in the medium term. It also allows central banks for a flexible response to external shocks.

The global financial crisis has shown that in order to ensure price stability in the longer term, monetary policy should be pursued in such a way as to – while striving to stabilise inflation at the target level in the medium term – limit the risk of accumulating imbalances in the economy, especially those resulting from the situation in the financial system. The possibility to flexibly set the parameters and adjust implementation of available monetary policy instruments according to the situation in the domestic financial system is a factor, which may mitigate this risk. The IT strategy allows central banks for conducting such flexible monetary policy, especially if it is supported by macroprudential policy (treated as an additional instrument of the central bank’s stabilization policy). In this context, it is particularly important that the recommendations issued by the European Systemic Risk Board regarding setting up national institutions responsible for macroprudential policy are implemented, and that the central bank’s leading role in pursuing this policy is ensured.

In its *Guidelines*, the Council stressed that in 2013 the NBP's monetary policy would remain focused on meeting inflation target in the medium term. At the same time the Council indicated that while pursuing monetary policy, it would be guided by the following principles:

- 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. While analysing inflation developments the use of quarterly and annual inflation indices is also justified, such as those applied in the NBP's inflation projection, in the state budget and in the statistics of the European Union, hereinafter "the EU", including the harmonized index of consumer prices – HICP. An important role in the assessment of inflationary pressure is also played by core inflation indices which make it easier to distinguish between temporary changes in the consumer price index from more sustained changes in inflation pressure. Moreover, core inflation indices make it easier to distinguish between impacts of supply or demand shocks on inflation.
- Second, monetary policy is unequivocally focused on maintaining inflation as close as possible to the target of 2.5% and not just within the tolerance band. This is to facilitate the anchoring of inflation expectations and thus to allow the central bank to change monetary policy parameters less frequently in response to potential shocks affecting current inflation. It may also lead to lower volatility of long-term interest rates.
- Third, the occurrence of shocks in the economy is inevitable. Depending on the strength and the direction of the shock and the degree of inertia of inflation expectations, the scale and the duration of inflation deviation from the adopted target may differ. In countries with sustained low inflation, the central bank usually does not respond to deviations from the inflation target if it deems them temporary, even when inflation leaves the tolerance band. In its *Guidelines* the Council indicated, that when assessing the need for response, the Council would, however, take into account the fact that in Poland low inflation expectations had not been sufficiently anchored. The extent to which inflation expectations are anchored affects the scale and persistence of the impact of supply and demand shocks on inflation. The Council underlined also, that in the case of shocks which, in the Council's opinion, might lead to a relatively permanent increase in inflation expectations and, as a result, to the rise in inflation due to the emergence of the so-called second-round effects, the central bank would adjust its monetary policy parameters accordingly.
- Fourth, the monetary policy response to shocks also depends on their causes and nature. In the case of demand shocks inflation and output move in the same direction. An interest rate increase weakens economic activity in the short term and, subsequently, inflationary pressure.

In the case of supply shocks output and inflation move in opposite directions. The dilemmas of monetary policy in such a case are as follows:

- An attempt to neutralise the impact of a supply shock on inflation using monetary policy instruments may lead to an even deeper plunge in output growth resulting from supply shock's negative impact on consumption and investment.
- On the other hand, an attempt to accommodate – by pursuing expansionary monetary policy – the real effects of a supply shock resulting in a rise in inflation and a decline in output

growth usually leads to persistently higher inflation. This, in turn, requires far more restrictive monetary policy in subsequent periods. This leads to a stronger deceleration in economic growth than the monetary tightening that prevents inflation from being sustained at a heightened level.

In the case of shocks resulting from shifts in risk aversion (variable factor), premature response of monetary policy to such shocks may – following their abrupt reversal – lead to an excessive interest rate volatility, and consequently to inflation and economic growth rate volatility.

The central bank's response to a shock depends on the assessment of the persistence of its consequences, including the assessment of the risk of the so-called second-round effects. Therefore, when assessing the risk of inflation stabilizing at a heightened level the important factors to be considered include the degree to which inflation expectations have been anchored and the overall macroeconomic conditions, which might either support or mitigate a rise in wage pressures.

As far as response to shocks is concerned, it is of particular importance that the central bank may specify the time horizon of inflation returning to the target flexibly, i.e. conditional on the nature of the shock.

- Fifth, because of the lags in the response of output and inflation to the monetary policy, the impact of monetary policy on the current inflation is limited. Current decisions of the monetary authorities affect price developments in the future, just as the current inflation is influenced by interest rate changes made several quarters before. However, the time lag between an interest rate decision and its strongest impact on real variables (output, employment) and then on inflation is not constant. It depends, to a large extent, on structural and institutional changes in the economy. Those changes mean that central banks can only approximately assess this time lag. Turmoil in the domestic and international financial system may constitute an additional factor disrupting the monetary transmission mechanism.
- Sixth, monetary policy should take into account the need to maintain financial stability which is indispensable to ensure price stability in the longer term and which enables effective functioning of the monetary policy transmission mechanism. In this context, when assessing the balance of risks to future inflation and economic growth, asset price developments are of particular importance. Excessive interest rates cuts and the long-lasting maintaining lowered interest rates amidst low inflation and simultaneous fast economic growth may lead to a rapid asset price growth, thus increasing the risk of the so-called speculative bubbles. Rapid asset price growth is accompanied by the growing likelihood of asset price deviation from the levels justified by fundamentals, which increases the risk of an abrupt and significant decline in asset prices in the future. Rapid increase in asset prices, especially if it is accompanied by a fast rise in lending, poses a threat to the financial system stability, and consequently – in the longer term – to sustainable economic growth and price stability. Monetary policy supporting financial system stability is thus consistent, in the longer term, with the achievement of the basic objective of the central bank's activity i.e. ensuring price stability, although it may occasionally pose a risk of temporary deviation of inflation from the target. In order

to maintain consistency between attempting to keep inflation at the target and supporting financial system stability, under certain conditions it may be necessary to lengthen the inflation target horizon.

- Seventh, in assessing the risk of turmoil in the financial system and the inflation outlook in the longer run, it is useful to analyse monetary and credit aggregates. A fast increase in these aggregates may lead to growing macroeconomic imbalances in the economy, including imbalances in the asset markets. Monetary policy decisions should take into account the risk connected with excessive increase in these aggregates. Regulatory and supervisory policies in the financial sector that have an impact on credit growth and its structure are an important factor influencing monetary policy.
- Eighth, in assessing the degree of monetary policy restrictiveness not only should the level of real interest rates 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. Ensuring price stability amidst an overly expansionary fiscal policy may require a tight monetary policy, including keeping interest rates at a higher level.
- Ninth, monetary policy is pursued under uncertainty which excludes strict control of economic processes. This natural uncertainty means that while taking decisions related to monetary policy it is necessary to take into account all available information relevant for inflation developments, rather than the results of inflation projection only. Models used by central banks to forecast inflation may be imperfect in adequately reproducing behaviour of the economy if only because of its ongoing structural changes. In addition, it is not possible to adopt a simple policy rule which could be known ex ante to market participants.
- Tenth, an important input into the 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 assessment of the economic developments, including the inflation projection. While assessing the factors affecting future inflation, the Council takes into consideration the past inflation developments since they have a bearing on the anchoring of inflation expectations at the inflation target. In particular, the Council takes into account 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.

Moreover, in its *Guidelines*, the Council indicated that the situation of public finances was an important factor affecting the monetary policy. The Council stressed that in order to maintain macroeconomic stability, including price stability, it was necessary to conduct fiscal policy ensuring the long-term stability of public finances. The Council pointed out that monetary policy focused on price stability also supported public finance stability.

2. Monetary policy and macroeconomic developments in 2013

In making monetary policy decisions in 2013, the Council strived – as it had in previous years – to maintain price stability, i.e. to stabilise inflation at 2.5% in the medium-term, which supported balanced economic growth. At the same time, monetary policy was conducted in such a manner so as to contain the risk of imbalances accumulating in the economy.

In its decisions, the Council primarily took into account the changing assessment of the factors influencing inflationary processes over the monetary policy transmission horizon. This assessment was based on the data concerning economic developments available at the time of the decision-making, including macroeconomic forecasts drawn up by NBP and external institutions.

From January to July 2013, the Council continued the cycle of interest rate cuts initiated in November 2012. In this period, the NBP interest rates were reduced by 1.75 percentage point (Table 1). During the entire cycle, the Council decreased the NBP interest rates by a total of 2.25 percentage points. As a result, the NBP reference rate had been brought down from 4.75% to 2.50%, i.e. the lowest level on record.¹ This substantial loosening of monetary policy – which was conducive to a fall in real interest rates – was related to a marked decline in inflation amidst slow economic growth and the risk of inflation running before the NBP inflation target (2.5%) in the medium term.

From September to December 2013, the Council kept the interest rates unchanged. The Council judged that prior significant interest rate cuts and their maintenance at an unchanged level would be conducive to economic recovery and would help bring inflation gradually back to the target. Moreover, in September and October 2013 the Council hinted at a probability of keeping interest rates at an unchanged level until at least the end of 2013. At its meeting in November 2013, the Council extended the indicated period for probable interest rate maintenance at unchanged level until at least the end of the first half of 2014.² Signalling the absence of the NBP interest rates change in the subsequent quarters was also conducive to economic recovery and furthermore – to stabilisation in the domestic financial market.

¹ Between November 2012 and July 2013, the remaining NBP interest rates were reduced in the same measure as the reference rate: the lombard rate from 6.25% to 4.00%, the deposit rate from 3.25% to 1.00% and the rediscount rate from 5.00% to 2.75%.

² At the meeting in February 2014, the Council extended the period for the probable interest rate maintenance at unchanged level until at least 2014 Q3.

Table 1. Key NBP rates at 2012 year-end and at the end of the subsequent months of 2013.

	Reference rate	Lombard rate	Deposit rate	Rediscount rate
December 2012	4.25%	5.75%	2.75%	4.50%
January 2013	4.00%	5.50%	2.50%	4.25%
February 2013	3.75%	5.25%	2.25%	4.00%
March 2013	3.25%	4.75%	1.75%	3.50%
April 2013	3.25%	4.75%	1.75%	3.50%
May 2013	3.00%	4.50%	1.50%	3.25%
June 2013	2.75%	4.25%	1.25%	3.00%
July 2013	2.50%	4.00%	1.00%	2.75%
August 2013	2.50%	4.00%	1.00%	2.75%
September 2013	2.50%	4.00%	1.00%	2.75%
October 2013	2.50%	4.00%	1.00%	2.75%
November 2013	2.50%	4.00%	1.00%	2.75%
December 2013	2.50%	4.00%	1.00%	2.75%

Source: NBP.

The Council's decisions in 2013 were based on the following circumstances:

Data incoming in the first half of 2013 pointed to slow economic growth in the global economy. In particular, the economy of the United States stalled in 2012 Q4, and posted merely a slight growth in 2013 Q1. At the same time, the euro area experienced recession and persistent uncertainty about the time and scale of the expected recovery. In the largest economy of the euro area – Germany, which is also Poland's main trading partner – in 2012 Q4 and 2013 Q1, recessionary and stagnation trends continued. Sluggish activity in developed economies had an adverse effect on key emerging economies, where GDP growth remained low compared to their previous performance. At the same time, business climate data released in the first half of 2013 presaged further merely moderate growth in the global economy in the subsequent quarters.

Owing to low demand pressure, which was accompanied by a decline in global commodity prices, in the first half of 2013 inflation was on a downward slope in many countries, particularly in developed ones, and remained below its long-term average.

Major central banks continued a strongly expansionary monetary policy in the first half of 2013. The Fed maintained its declaration to leave the short-term interest rates at near-zero levels for a longer period of time while continuing its asset purchases. Yet, the Fed signalled a possibility of tapering its quantitative easing activity as of May – i.e. earlier than expected. The ECB, in turn, decreased the rate on the main refinancing operations by 0.25 pp in May and reaffirmed its willingness to purchase the Treasury bonds of the countries most heavily stricken by the debt crisis. In April, the Bank of Japan announced a new asset purchase programme, under which the Bank obliged to double the monetary base by increasing its holdings of Treasury bonds and of financial assets of the private sector.

The strongly expansionary monetary policy of the major central banks helped ease the sentiment in the financial markets in the first months of 2013. Yet, in May and June, after the Fed's signals that it might embark on a process of quantitative easing tapering, risk aversion in the global financial

markets mounted substantially. As a result, an outflow of capital was observed from emerging markets, and the exchange rates of many of those countries' currencies weakened substantially. The slump in sentiment in the global financial markets resulted also in an outflow of capital from Poland – non-residents' holdings of Treasury bonds diminished, yields on those bonds increased and the zloty exchange rate depreciated (yet the scale of the depreciation was far smaller than in the case of many other emerging economy currencies). In June 2013, NBP sold a certain amount of foreign currencies against the zloty.

Data on the Polish economy incoming in the first half of 2013 pointed to a further and sharper-than-expected slowdown in GDP growth. Domestic demand growth was negative in 2012 Q4 and 2013 Q1, which was related to sinking investment and stagnating consumption. Economic growth continued to be driven mainly by net exports, a product of a decline in imports amidst a slight increase in exports.

Also the monthly data available in the first half of 2013 pointed to slow economic growth. The annual industrial output growth was negative in 2013 Q1, followed by positive – if slight – growth recorded in the subsequent months. Throughout the entire first half of 2013, construction and assembly output was decreasing substantially. Weak consumer demand was reflected in stalling retail sales.

Slow economic activity growth led to a deterioration in labour market conditions. Data received in the first half of 2013 indicated that after deceleration in growth of the number of persons working in the economy in 2012 Q4, this number decreased in 2013 Q1 (in annual terms). Monthly data on employment in enterprises incoming in the subsequent months suggested that the number of persons working in the economy had continued to shrink. The decline in this number boosted the unemployment rate further. Consequently, the unemployment rate remained elevated throughout the entire first half of 2013. This weighed on wage and unit labour cost growth.

Lending to the private sector expanded slowly in the successive months of the first half of 2013 comparing to previous years. In particular, growth in lending to households slowed down at the beginning of 2013, to remain weak onwards. This was a combined effect of slow housing loan growth and a decline in consumer credit. At the same time, corporate lending decelerated gradually, hitting near-zero levels in 2013 Q2.

CPI inflation, following a decline to the level close to the inflation target at the end of 2012, continued to fall substantially in the subsequent months. The fall in inflation was sharper than expected. In 2013 Q1, CPI inflation amounted to 1.3% on average, and in 2013 Q2 to 0.5%, i.e. markedly below the NBP inflation target (2.5%). The substantial and deeper-than-anticipated decline in inflation was primarily the effect of factors beyond the direct influence of domestic monetary policy. In particular, energy prices had fallen (which was related to a reduction in natural gas prices at the beginning of the year and a decline in global prices of energy commodities) and food price growth had slowed down (to a large extent, due to higher domestic supply of most agricultural products). The drop in inflation to below the target was also supported by slower-than-anticipated GDP growth, which helped bring core inflation down. Weak cost pressure in the economy was in turn manifested in declining producer prices. In tandem with a fall in current inflation, economic agents' inflation expectations also

decreased, as did inflation forecasts. Furthermore, the March NBP projection indicated a possibility of inflation turning out lower in the subsequent quarters than previously expected, possibly running below the NBP inflation target in the medium term.

Given the above conditions, in the first half of 2013 the Council continued the cycle of the NBP interest rate cuts, which had been launched in November 2012. Both in January and February, the Council cut the NBP interest rates by 0.25 percentage points. In the assessment of the Council, incoming data confirmed a considerable economic slowdown in Poland, accompanied by absence of wage pressure and by weak inflation pressure. At the same time, the Council judged that GDP growth would remain moderate in the subsequent quarters, generating a risk of inflation hovering below the NBP inflation target in the medium term. After perusing the March projection of inflation and GDP, which corroborated this assessment, the Council decreased the NBP interest rates by 0.50 percentage point. In May, June and July 2013, the Council cut the NBP interest rates again, by 0.25 percentage point on each occasion. Incoming data indicated a sharper-than-expected deceleration in GDP growth and a decline in inflation. In effect, despite the previous interest rate reductions, the risk that inflation would run below the inflation target in the medium term persisted.³ At the same time, there was further substantial uncertainty about the scale and timing of the expected recovery in the euro area, which could negatively impact economic activity in Poland.

At its July meeting, the Council announced the end of the interest rate cut cycle, deeming that the significant reduction of the NBP interest rates implemented since November 2012 was conducive to economic recovery and limited the risk of inflation running below the inflation target in the medium term. By July 2013, the NBP reference rate had been reduced from 4.75% (in October 2012) to 2.50% (in July 2013). As a result, real interest rate (the NBP reference rate deflated by financial sector analysts forecasts of inflation in 12 months horizon) decreased from 2.1% in November 2012 to 0.5% in July 2013.⁴

Data incoming in the second half of 2013 pointed to global activity gaining momentum. In 2013 Q2 and Q3, GDP growth in the United States accelerated. At the same time, output in the euro area – following several quarters of decline – picked up slightly. In particular, there was an activity revival in Germany. The indicators published in the second half of 2013 signalled that the global recovery – while still moderate – would gradually gain ground, and particularly the euro area would post positive GDP growth. Despite a certain activity rebound in the global economy, growth in the major emerging economies remained relatively low in the second half of 2013.

Inflation in the global economy rose temporarily in mid-2013, to fall back to levels below the long-term average in the second half of 2013. Sustained low levels of inflation were supported by moderate GDP growth in the world and a decline in the prices of many commodities in the global markets.

³ The risk of inflation running below the NBP inflation target in the medium run – in spite of the recovery expected in the subsequent quarters – was also indicated by the July projection of inflation and GDP, prepared under the assumption of unchanged interest rates (i.e. without taking into account the July interest rate cut of 0.25 percentage points).

⁴ A considerable fall in the real interest rate occurred despite a decrease in bank analysts forecasts of inflation in 12 months horizon.

In the second half of 2013, monetary policy pursued by key central banks remained highly expansionary. During this period, the Fed continued its quantitative easing programme, yet in December it announced the beginning asset purchases tapering.⁵ The Fed upheld its declaration that it would keep the interest rates unchanged for a longer period. The ECB, in turn, announced in July 2013 that the interest rates would remain at the then-current level – or below it – for an extended period of time. In November 2013, the Bank proceeded to cut the rates by 0.25 pp. Throughout the second half of 2013, the ECB reaffirmed its preparedness to launch a programme of purchase of Treasury bonds of countries most gravely affected by the debt crisis.

Expectations about the beginning of the Fed's tapering had a material impact on the situation in the financial markets in mid-2013. These expectations contributed – especially until early September 2013 – to an outflow of capital from the riskier markets, a higher volatility of the exchange rates of emerging economy currencies and a rise in yields on Treasury securities of many countries. As a result also in Poland, yields on Treasury securities were on an upward slope until mid-September, which was accompanied by shrinking non-resident holdings of Polish government debt. Notwithstanding a certain volatility, the zloty exchange rate remained more stable than the exchange rates of many other emerging economies.

The September Fed decision to maintain the scale of quantitative easing helped stabilise the sentiment in the global financial markets. In the second half of 2013, asset prices were additionally supported by the publication of data indicating better global business conditions. In Poland – besides those mentioned above – the factors helping improve the sentiment in the domestic financial market included also signs of a gradual GDP growth recovery, as well as a narrowing of the country's external imbalance.

The data on the Polish economy available in the second half of 2013 pointed to a gradual improvement of business conditions. Following a period of a substantial slowdown, the annual GDP growth stabilised in 2013 Q2, to accelerate somewhat in 2013 Q3. However, output growth in the analysed period remained slow. Recovery in 2013 Q2 and Q3 was supported primarily by accelerating exports, as business conditions abroad gradually improved. Combined with developments in imports, which shrank in 2013 Q2 and expanded merely slightly in 2013 Q3 (in annual terms), net exports constituted the key demand driver of economic growth. At the same time, domestic demand was gradually restored in the second half of the year, driven by a gradual rise in both consumption and investment.

A gradual improvement in business conditions in Poland was also confirmed by incoming monthly data in the second half of 2013. Industrial output growth, while remaining moderate, accelerated gradually, and the decline in the construction and assembly output was increasingly smaller. At the same time – following a stagnation in the first half of 2013 – retail sales picked up (in annual terms), which testified to a revival in consumer demand. There was a consistent improvement in all business climate indicators, which indicated a possible activity increase in the subsequent quarters. A further

⁵ The tapering of the quantitative easing programme was bound to take place – in line with the Fed's December announcement – in January 2014.

gradual recovery was also suggested by market forecasts, which had been revised upwards since September 2013. Also the November NBP projection envisaged that economic growth in the subsequent quarters might be higher than assumed in the July projection.

Data available in the second half of 2013 showed that labour market conditions remained adverse, although towards the end of the year signs of a slight improvement were observed. In 2013 Q2, the number of persons working in the economy continued to fall, yet in 2013 Q3 the decline flattened. Similar trends were observed in the corporate sector, where at the end of 2013 a slight increase in employment was recorded.⁶ At the same time, the unemployment rate according to LFS stabilised in 2013 Q2, to slide a little in the following quarter (after seasonal adjustment). The gradual decline in the unemployment rate (after seasonal adjustment) was also confirmed by monthly data from labour offices. However, unemployment persisted at elevated levels in the second half of 2013, which constrained wage pressure. Wage and unit labour cost growth remained weaker than its long-term average.

Lending growth picked up a little in the second half of 2013, yet remained limited. In particular, following a prior decrease, consumer loans started to expand in mid-2013. Simultaneously, incoming data showed that the growth in housing loans to households, after a few quarters of decline, stagnated at low levels. In turn, lending to corporates continued to contract.

Following a sharp decrease in the first half of 2013, CPI inflation rose somewhat in the subsequent months, while remaining significantly below the NBP inflation target. In 2013 Q3, the annual CPI index amounted to 1.1% on average, and in Q4 – to 0.7%. Low inflation continued to be supported by a prior decline in energy prices and a slow food price growth.⁷ Core inflation, in turn – notwithstanding a slight increase resulting from a rise in waste removal charges from July 2013 – remained low and indicated an absence of demand pressure in the economy. Against the background of low current inflation, inflation expectations of households and enterprises persisted at a level significantly below the inflation target. Yet, inflation expectations of financial sector analysts (in the 12 month-horizon), which tend to be more stable, remained only slightly below 2.5%. Similarly, the November NBP projection suggested that inflation would rise in the subsequent quarters, running higher than anticipated in the July projection. This expected rise in inflation – according to the November projection – would not be strong enough to jeopardise the attainment of the NBP inflation target in the medium term.

Between September and December 2013 the Council kept the interest rates unchanged, which supported low real interest rates.⁸ The Council judged that prior significant interest rate cuts and the maintenance of the rates at an unchanged level would be conducive to economic recovery and would support a gradual return of inflation to the target. Moreover, in September and October 2013 the

⁶ Although, according to the monthly corporate sector data, employment in annual terms was decreasing, the decline became less steep over time. In November, employment was observed to rise by 0.1% y/y, and in December by 0.3% y/y.

⁷ Food price growth, following a temporary rise at mid-year, dropped again in the subsequent months, as supply conditions in the markets for agricultural produce had improved. The sharper rise in food prices in mid-year was related to unfavourable weather conditions, rendering limited domestic supply of vegetables. The spike in inflation in this period also resulted from the changed pattern of vegetable price seasonality applied by GUS in computing the consumer price index.

⁸ Real interest rate (i.e. the NBP reference rate deflated by financial sector analysts forecasts of inflation in 12 months horizon) was running in the range of 0.3-0.4% (in the period of September-December 2013).

Council hinted at a probability of interest rates remaining unchanged until at least the end of 2013. At its meeting in November 2013, the Council extended the indicated period for probable interest rate maintenance at an unchanged level until at least the end of the first half of 2014.⁹ Signalling the absence of the NBP interest rates change in the subsequent quarters was also conducive to economic recovery and furthermore – to stabilisation in the domestic financial market.

An important element in the implementation of monetary policy based on the direct inflation targeting strategy in 2013 was – like in the previous years – communication with the external environment, which consisted in the Council presenting the information on the current and probable future decisions, along with an assessment of economic processes which underpinned these decisions. The key communication instruments in 2013 continued to include the cyclical publications: *Information from the meeting of the Monetary Policy Council* (and the accompanying press conferences after Council meetings), *Minutes from the Monetary Policy Council decision-making meetings* (Appendix 7)¹⁰, *Inflation Reports* as well as the annual publications: *Report on monetary policy implementation in 2012* and *Monetary Policy Guidelines for 2014*.

⁹ At the meeting of February 2014, the Council extended the period for the likely maintenance of unchanged interest rates until at least the end of 2014 Q3.

¹⁰ The *Minutes from the Monetary Policy Council decision-making meetings* contain a more detailed discussion of issues and arguments which underpinned the decisions taken by the Monetary Policy Council in 2013.

3. Monetary policy instruments in 2013

In pursuing its monetary policy in 2013, the Council strived to attain such level of interest rates in the economy as would support the achievement of the adopted inflation target in the medium term.

The monetary policy instrument directly affected by the Council were NBP interest rates. The level of the reference rate determined the yields on open market operations. The deposit rate and the lombard rate, in turn, set the interest rate on standing facilities. The rediscount rate indirectly determined the interest rate on the required reserve holdings.

The set of policy instruments applied by NBP was consistent with the adopted monetary policy strategy as well as with the persistent surplus liquidity in the domestic banking sector.

Developments in the domestic and foreign financial markets did not call for any substantial changes in NBP's monetary policy implementation in 2013.

Liquidity of the banking sector in 2013

In 2013, NBP pursued its monetary policy amidst liquidity surplus prevailing in the banking sector.¹¹ The amount of the surplus averaged PLN 126 541 million in 2013, i.e. PLN 30 235 million (31.4%) more than in 2012.¹²

The excess liquidity of the banking sector was relatively stable throughout 2013. In the respective months of the year its level ranged from PLN 123 485 million to PLN 129 048 million. In December 2013, the average level of excess liquidity amounted to PLN 123 485 million and was higher by PLN 6 562 million (or 5.6%) as compared with the December 2012 level. In 2013, the increase in the banking sector liquidity was mainly driven by foreign currency purchases by NBP obtained from the EU budget funds (Structural Funds, Common Agricultural Policy) and funds from the foreign currency account of the Ministry of Finance held at NBP. The net effect of purchases and sales of currencies effected by NBP was an increase in the level of liquidity in the banking sector by PLN 12 077 million. The increase of the banking sector liquidity was also driven by the following factors: disbursement of the part of NBP profit to the State Budget (PLN 5 264 million), disbursement of the discount on NBP bills (PLN 3 843 million), payment of interest on the required reserve holdings (PLN 921 million) and a lower level of the public sector's deposits at NBP (PLN 921 million).

The key factors limiting the level of liquidity in the banking sector was the increase in the volume of currency in circulation, which amounted to PLN 12 414 million. Another important factor diminishing

¹¹ The liquidity surplus in the banking sector is the surplus of funds held by the banking sector in excess of the required reserve level during the reserve maintenance period. Liquidity surplus is measured by the total balance of the following NBP operations: open market operations and standing facility operations.

¹² The data on excess liquidity are averages for the required reserve maintenance period.

the volume of funds available to the banking sector was the increase in the level of reserve requirements (PLN 1 550 million).

NBP interest rates

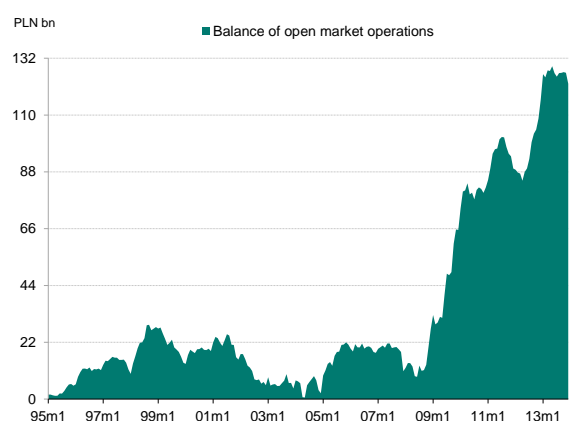
An instrument of key significance to the conduct of the monetary policy in 2013 was NBP reference rate. Changes in the level of this rate set the direction of the monetary policy pursued by NBP. By determining the yields on open market operations, the level of this rate influenced the interest on short-term money market instruments, including unsecured interbank deposits.

The band of fluctuations of interbank overnight interest rates was set by NBP deposit and lombard rates. The rediscount rate, in turn, indirectly determined the interest rate on required reserve holdings.¹³

Open market operations

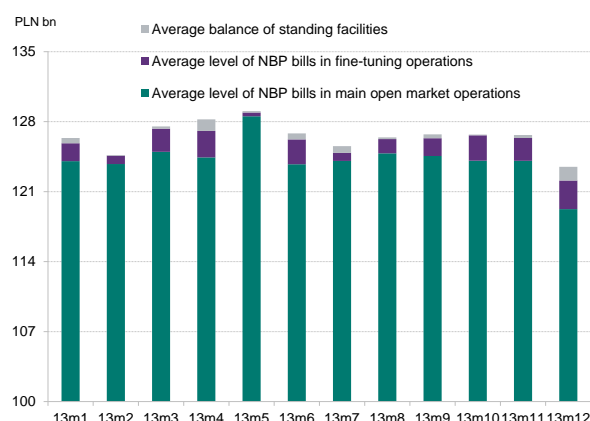
In 2013, NBP conducted its monetary policy in a way to allow the POLONIA rate¹⁴ to run close to the NBP reference rate. This was achieved by means of open market operations used to manage liquidity in the banking sector.

Figure 1 Average monthly balance of open market operations in 1995-2013



Source: NBP data.

Figure 2 Liquidity absorbing instruments in the respective months of 2013



Source: NBP data.

The main open market operations were executed on a regular basis, once a week, in the form of issue of NBP bills with 7-day maturity (these operations were aimed to absorb liquidity surplus from the banking sector). The same yield equaling NBP reference rate was offered at all tenders. In 2013, the average daily volume of bills issued under the main open market operations amounted to PLN 124 232 million, exceeding the average 2012 level by PLN 29 901 million.

The central bank also issued NBP bills as part of its fine-tuning operations. The maturity of these operations was shorter than that of the main open market operations. They were conducted on an ad-hoc basis within the required reserve maintenance periods, whenever liquidity conditions in the

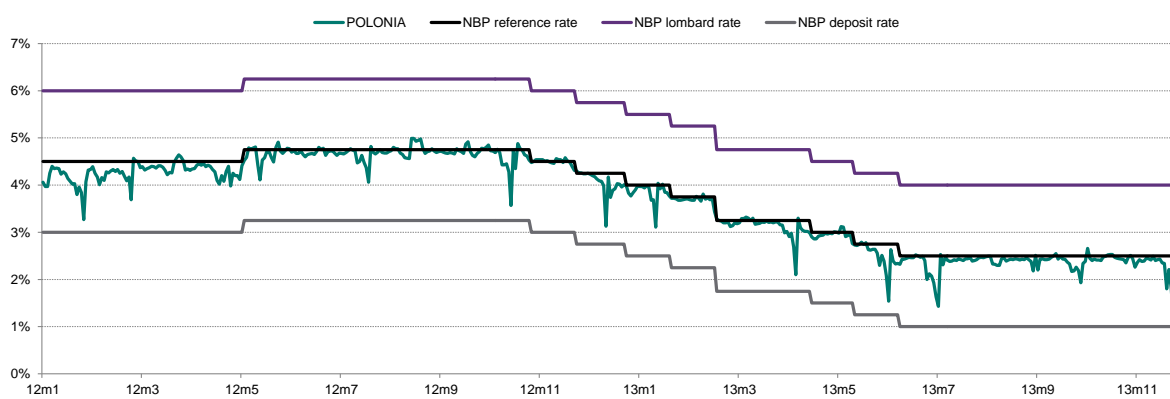
¹³ Interest on the required reserve balances held by banks in 2013 was at the level of 0.9 of the rediscount rate.

¹⁴ POLONIA (Polish Overnight Index Average) – average overnight rate weighted by the value of transactions on the unsecured interbank deposit market. NBP publishes the levels of this rate on the Reuters information site (NBPS) every day at 5.00 p.m.

banking sector were substantially out of balance, as well as on a regular basis on the last business day of the above mentioned reserve maintenance periods. Altogether twenty five fine-tuning operations were conducted in 2013, i.e. two more than in the previous year. The average daily issue of NBP bills under these operations amounted to PLN 1 846 million and exceeded the 2012 level by PLN 264 million.

In 2013, as in the previous year, the average absolute spread between the POLONIA rate and NBP reference rate remained at a low level and amounted to 18 basis points (as compared to 21 basis points in 2012).¹⁵ Also the volatility of that index was low – the standard deviation of the POLONIA rate over the last year was 20 basis points (as compared to 21 basis points in 2012).

Figure 3 NBP interest rates and the POLONIA rate in 2012-2013



Source: NBP data.

It should be emphasized that the level of volatility of the POLONIA rate in 2013 and the scale of its deviations from NBP reference rate are close to the corresponding values recorded in the domestic interbank market before the outset of the crisis in the global financial markets. The average value of the difference between the mentioned rates was 24 basis points in 2007 and 19 basis points in the period January - September 2008 (i.e. before the bankruptcy of Lehman Brothers). In turn, the volatility of the POLONIA rate, as measured by the standard deviation, amounted to 45 bp and 33 bp respectively. To compare, the average values of these indicators in the years 2010 and 2011 were as follows: absolute deviation of the POLONIA rate from NBP reference rate was 69 bp and 43 bp respectively, standard deviation of the POLONIA rate was 38 bp and 34 bp respectively. This means that the scale of deviations of the POLONIA rate from NBP reference rate decreased more than threefold in the recent years.

The launch of short-term open market fine-tuning operations (performed on an ad-hoc basis, during the reserve maintenance period and on a regular basis on its last business day) considerably limited the deviations of the POLONIA rate from NBP reference rate and its volatility. As a result of those operations, the average liquidity conditions in the required reserve maintenance period were

¹⁵ The average deviation of the POLONIA rate was calculated based on the uniform base of 365 days in a year.

gradually balanced, which limited the need for banks to recourse to standing facility operations offered by NBP.

NBP's continuation of the above described method of managing the banking sector liquidity resulted in increased confidence of commercial banks in the central bank's operations aimed to balance the liquidity conditions in the banking sector. Banks could assume that, if necessary, NBP would intervene in the money market, conducting a fine-tuning operation on an appropriate scale. This helped to stabilize the expectations of the interbank market participants with regard to the developments in the banking sector liquidity and diminish banks' propensity to invest their liquidity buffers in instruments yielding substantially lower than NBP open market operations.

Improvement in the way NBP affected the POLONIA rate can be partially attributed to a gradual stabilization of the situation in the interbank market. It should be noted, however, that this market has not yet reached full efficiency (observed before the crisis), which continues to limit NBP's effectiveness in the implementation of its monetary policy. Such an observation was evidenced, among others, by limited confidence between participants in the interbank market, reflected in low levels of credit limits imposed on mutual transactions concluded between banks, as well as in the term structure of unsecured deposits, among which the vast majority were conducted for overnight maturity. In 2013, the monthly average turnover in the unsecured interbank deposit market amounted to PLN 116.0 billion, while in 2012, stood at PLN 120.6 billion.¹⁶

Reserve requirement

The system of required reserves contributed to the stability of short-term market interest rates. This results from its averaged basis, according to which banks can freely determine the amount of holdings at the central bank during the reserve maintenance period, provided that the average balances held at NBP in the reserve maintenance period are at least equal to the required reserve level.

Moreover, the obligation to maintain the required reserve limited the amount of surplus funds at the disposal of banks. Thus, amidst the prevailing liquidity surplus, the reserve requirement system enabled the central bank to reduce the scale of its liquidity-absorbing open market operations.

In 2013, the requirement to maintain obligatory reserve levels on NBP accounts applied to banks, branches of credit institutions and branches of foreign banks operating in Poland. The required reserves were calculated on the basis of banks' collected deposits on bank accounts and funds coming from the sale of securities. Excluded from reserve calculation were funds received from another domestic bank, funds acquired from foreign sources for the period of at least two years and funds deposited in credit and savings accounts of building societies, in individual retirement accounts (IKE) and individual pension security accounts (IKZE).

The required reserves were calculated and maintained in the Polish zloty. Banks reduced the amount of the calculated reserve requirement by the PLN equivalent of maximum EUR 500 thousand. In 2013, the basic reserve requirement ratio amounted to 3.5% on all liabilities, except for funds received in respect of the sale of securities in repo and sell-buy-back transactions, in which case the reserve

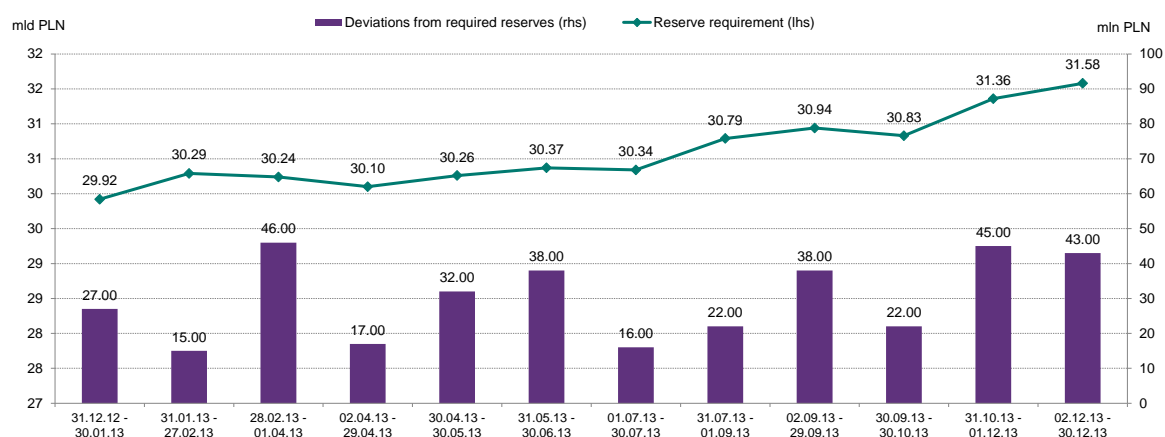
¹⁶ Data from the NBP's payment system SORBNET2 (until May 2013 - SORBNET).

requirement stood at 0.0%. The amount of required reserves as at 31 December 2013 stood at PLN 31 876 million, posting an increase of PLN 1 957 million on the corresponding figure recorded on 31 December 2012 (an increase of 6.5%).

The remuneration on the required reserve balances held by banks on accounts with NBP was equivalent to 0.9% of the rediscount rate. In 2013 the average interest on the required reserve funds amounted to 2.87% as compared to 4.37% in 2012. This decrease was the effect of the change in the rediscount rate, which average level declined from 4.86% in 2012 to 3.19% in 2013.

In 2013, in all the reserve maintenance periods, the average balances held by banks at NBP remained slightly in excess of the required reserve level. The surplus ranged from the lowest point of PLN 14.8 million observed in February to the peak value of PLN 46.1 million in March. The average excess reserves on banks' accounts in 2013 amounted to PLN 30.1 million, i.e. 0.1% of the average required reserve level.

Figure 4 Changes in the required reserve level and deviations from the reserve requirement in 2013



Source: NBP data.

A factor conducive to minimizing the difference between the reserve holdings and the required reserve level in the respective reserve maintenance periods was the availability of a range of instruments facilitating the management of funds on accounts with NBP, (open market operations, in particular, fine-tuning operations offered at the end of the reserve maintenance period, overnight deposit and lombard credit) and the fact that remuneration on the reserve holdings was paid only up to the amount of the required reserve level.

In 2013 (in November), two instances of failing to maintain the required reserve level occurred. All co-operative banks maintained the obligatory level of the required reserve in 2013.

Standing facilities

Standing facilities (overnight deposit facility and lombard credit) were used to stabilize the liquidity level in the interbank market and curb the scale of overnight market rate fluctuations. These operations were conducted at the initiative of commercial banks and were designed primarily to

provide the short-term liquidity of the banking system or enable banks to deposit excess free funds with NBP for one-day periods.

In 2013, as in the previous years, banks' use of lombard credit was very limited. The total drawing on the lombard credit amounted to PLN 163 million, as compared with PLN 21 million in 2012. The average daily drawing on the lombard credit amounted to PLN 448 thousand.

In 2013, banks placed overnight deposits at NBP totalling PLN 169 billion, i.e. 18.2% more than in the previous year. The average daily overnight deposit amounted to PLN 463 million, as against PLN 393 million in 2012. Banks deposited the highest amounts with NBP on the last days of the reserve requirement maintenance period.

Foreign exchange swaps

By using a foreign exchange swap, NBP could purchase (or sell) the Polish zloty against foreign currency in the spot market, with a simultaneous sale (repurchase) in a fixed-date forward transaction.

In 2013, the central bank did not conclude any such transactions.

Currency interventions

Under the existing monetary policy strategy, NBP may purchase or sell foreign currency in the foreign currency market against the Polish zloty.

Such operations were carried out by the central bank in June 2013 when NBP sold a certain amount of foreign currencies.

Other operations

Intra-day credit facility helped banks to manage their liquidity position during the business day, while at the same time ensuring the liquidity of interbank settlements at NBP. It is a non-interest bearing loan secured with debt instruments, incurred and repaid on the same business day. In 2013, the daily provision of operating liquidity to banks in the form of intra-day credit ranged from PLN 33.9 billion to PLN 57.1 billion. In 2013, the total drawing on intra-day credit facility amounted to PLN 10 058 billion, posting a slight 1.3% decrease on its 2012 level where it stood at PLN 10 191 billion.

Intra-day credit facility in the euro ensured liquidity of banks' settlements within the TARGET2-NBP system. This credit facility, incurred and repaid on the same business day, was collateralized with Treasury securities.¹⁷ In 2013, the total drawing on this facility remained at the previous year's level, i.e. EUR 2.6 billion. The average daily euro liquidity provision to banks amounted to approx. EUR 10 million.

¹⁷ The rules of acceptance of a specific class of securities as a collateral for intraday credit facility in the euro were subject to approval by the ECB.

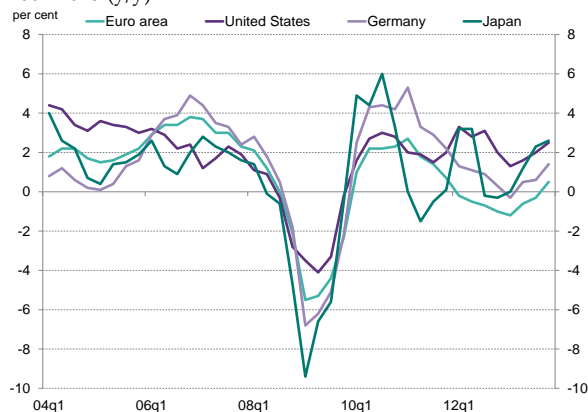
Appendix 1. External environment of the Polish economy

In 2013, monetary policy was conducted against the backdrop of low, but gradually accelerating global economic growth (Figure 5, Figure 6), continued expansionary monetary policy of major central banks and the continuation of fiscal tightening in many countries. This was accompanied by a large volatility of sentiment in financial markets and the related changes in capital flows.

Average economic growth in developed economies in 2013 was slower than a year before. In the United States the ongoing fiscal tightening contributed to a reduction in GDP growth. In turn, the euro area – the main trading partner of Poland – remained in recession.¹⁸ Low demand in some of the euro area countries was associated with further adjustments in the balance sheets of the private and public sectors, loss of competitiveness and the continuously unfavourable labour market conditions. In the euro area's largest economy – Germany – the economic situation was better than in many other countries of the region, however, GDP growth was lower than in previous years. The reduction in GDP growth in Germany was mainly due to lower export growth, accompanied by a further decline in investment.

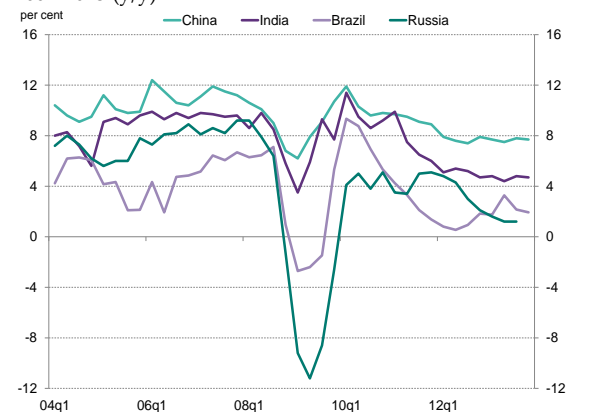
In the major emerging economies GDP growth remained low, as for these countries, which was partly due to the continuing slow growth in demand from developed economies. In some of these economies (including China and India), low GDP growth in 2013 was also associated with constraints on the supply side of the economy and slow growth in domestic demand. The decreasing prices of commodities in the global markets also had a negative impact on the growth of commodity-exporting emerging economies.

Figure 5 GDP growth in the major developed economies in 2004-2013 (y/y)



Source: Bloomberg.

Figure 6 GDP growth in the major emerging economies in 2004-2013 (y/y)

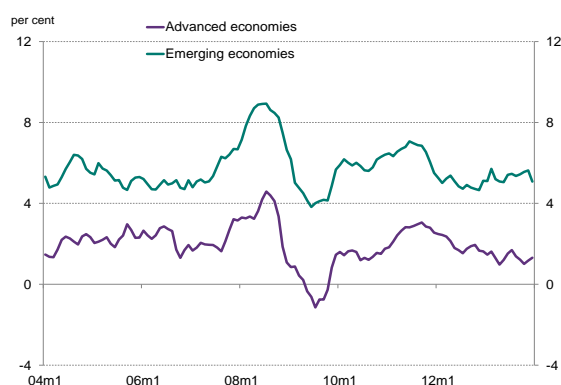


Source: Bloomberg.

¹⁸ Although from 2013 Q2, quarterly GDP growth in the euro area was positive, in the whole 2013 GDP fell by 0.5% y/y.

Low demand pressure and the decline in commodity prices in the global markets was conducive to the decline in inflation in many countries (Figure 7, Figure 8). In the developed economies, inflation was lower than a year earlier, while in emerging economies – it increased slightly, but remained relatively low by historical standards. The increase in inflation in some emerging countries resulted from the depreciation of the exchange rates of their currencies.

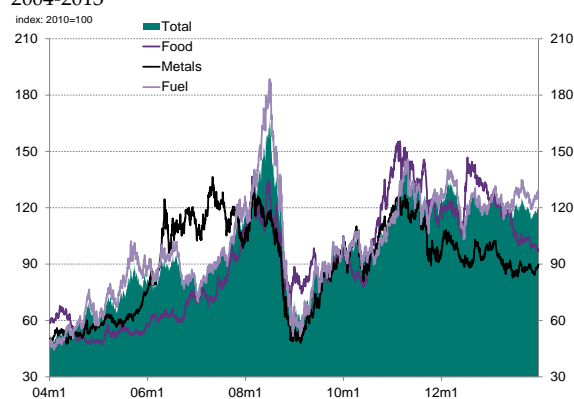
Figure 7 Global inflation in 2004-2013*



Source: Bloomberg, NBP calculations.

* Weighted average inflation in the developed and the largest emerging economies (accounting for 80% of GDP in this group of countries in 2012). Aggregates in accordance with the division adopted by the IMF. Individual countries have been weighted according to their share of global GDP.

Figure 8 Index of commodity prices in the global markets in 2004-2013



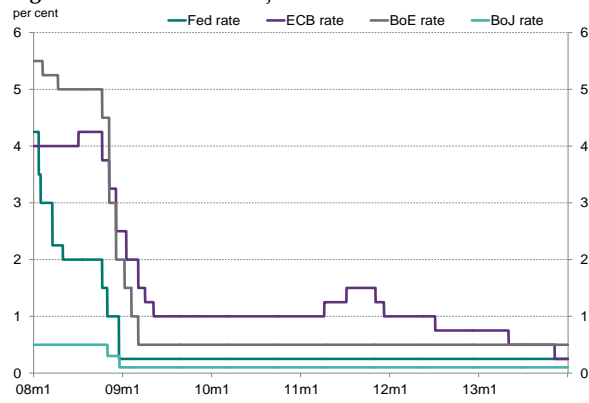
Source: Bloomberg.

Due to the low growth of economic activity and the attendant low inflationary pressures, in 2013 the major central banks continued to pursue a highly expansionary monetary policy (Figure 9, Figure 10).

Monetary policy of the major central banks significantly affected the change in sentiment in global financial markets. In the first months of 2013, further quantitative easing by the Fed and increased asset purchases by the Bank of Japan were conducive to maintaining a low risk aversion and increasing the prices of most assets. Since May, i.e. after the Fed started signalling the possibility of a gradual tapering of quantitative easing, an outflow of capital from emerging economies was seen, coupled with the depreciation of currencies of many countries and a decline in the prices of their assets. Also in the second half of the year, uncertainty about the future monetary policy of the Fed supported the increased volatility of global asset prices, in particular the assets of emerging economies.

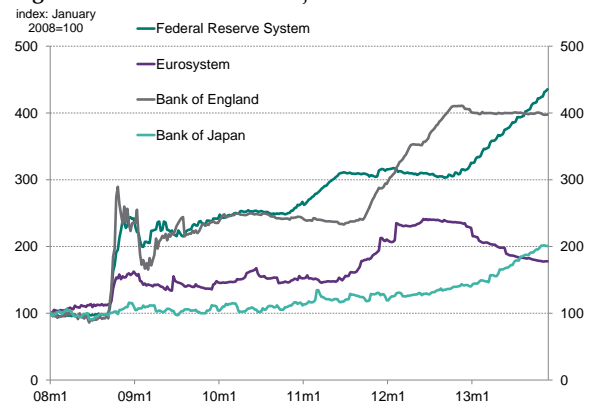
The Fed's actions also had a significant impact on the monetary policy of central banks in emerging economies. In 2013, most of these banks lowered their interest rates or kept them at a low level, mainly due to the relatively low growth in economic activity. When the Fed signalled the possibility of tapering quantitative easing, some of them intervened in the currency market to curb the depreciation of their currencies.

Figure 9 Interest rate of major central banks in 2008-2013



Source: Bloomberg.

Figure 10 Balance sheets of major central banks in 2008-2013

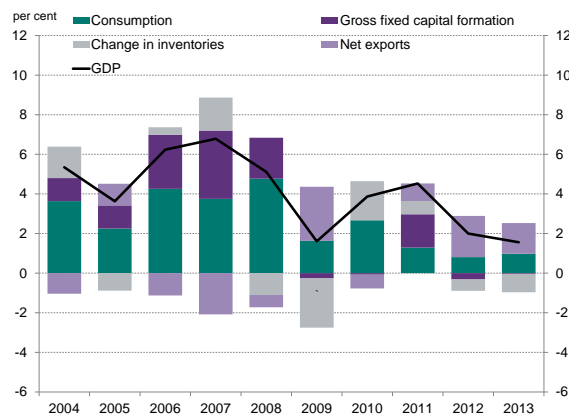


Source: Bloomberg, NBP calculations.

Appendix 2. GDP and domestic demand

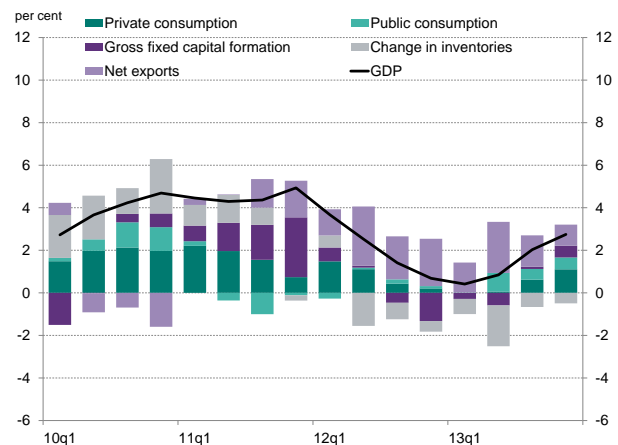
Annual GDP growth in 2013 was 1.6% (in comparison to 2.0% in 2012; Figure 11, Figure 12, Table 2). The slowdown in GDP growth in 2013 resulted from a protracted period of weak economic conditions abroad, including in particular, persisting recession in the euro area and a decline in GDP growth in Germany. Weak external demand and continued uncertainty about the economic situation abroad curbed export growth and corporate investment. At the same time – in a situation of still excessive public sector deficit – further measures were undertaken to curb the growth of government expenditure. In particular public investment were reduced. Moreover, in 2013 unemployment remained high, which limited the growth of wages and private consumption. As a result, domestic demand – as in 2012 – was stagnant. Net exports continued to have a positive contribution to GDP growth, which resulted from the continued higher growth of exports than imports.

Figure 11 Contribution of aggregate demand components to GDP growth in 2004-2014 (annual data)



Source: GUS data, NBP calculations.

Figure 12 Contribution of aggregate demand components to GDP growth in 2010-2013 (quarterly data)



Source: GUS data, NBP calculations.

The year 2013 saw a gradual acceleration of economic growth (from 0.4% in 2013 Q1 to 2.7% in 2013 Q4). The evolution of the main components of aggregate demand is discussed below.

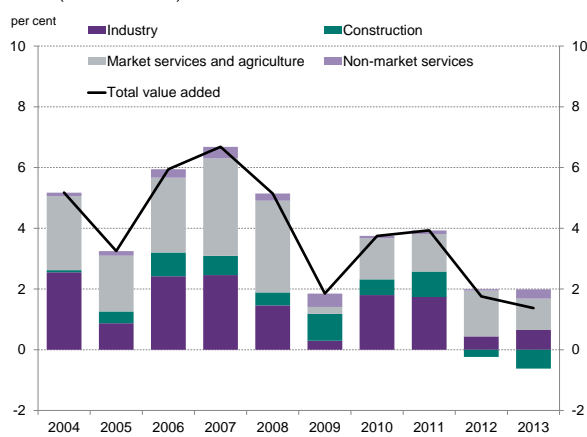
The growth of private consumption in the first half of 2013 remained at a level close to zero. The stagnation in private consumption was due to a low growth of households' disposable income resulting from a decrease in employment and the persistently high unemployment rate, which limited the growth of wages. As the labour market gradually improved in the second half of the year, the private consumption increased. The revival of private consumption was also supported by an improvement in consumer sentiment and the easing of banks' criteria of granting consumer loans.

The increase in public consumption in 2013 remained at a level lower than its long-term average. A moderate growth in public consumption resulted from further measures aimed at reducing fiscal imbalances, including in particular the prevailing expenditure rule, the fiscal rules in local government units, as well as wage freeze in the central government sub-sector.

In 2013, investment demand was somewhat lower than in 2012.¹⁹ Negative growth in public investment²⁰, related to the measures aimed at reducing the fiscal imbalance was conducive to reducing investment in the economy.²¹ The year 2013 also saw a decline in residential investment due to the persistently weak labour market conditions, as well as the completion of the government programme "Family on its own" and the relatively stringent criteria for granting housing loans (the result of, among other things, the amendment to Recommendation S implemented in early 2013). However, due to the recovery of corporate investment in the second half of the year, gross fixed assets increased somewhat in late 2013. The gradual improvement in investment activity of corporations stemmed from the economic recovery, both at home and abroad, and the increased use of transfers from the EU funds allocated for capital expenditure of the private sector. The increase in gross fixed capital formation of enterprises was also supported by the relatively high level of capacity utilization and improving financial situation of firms.

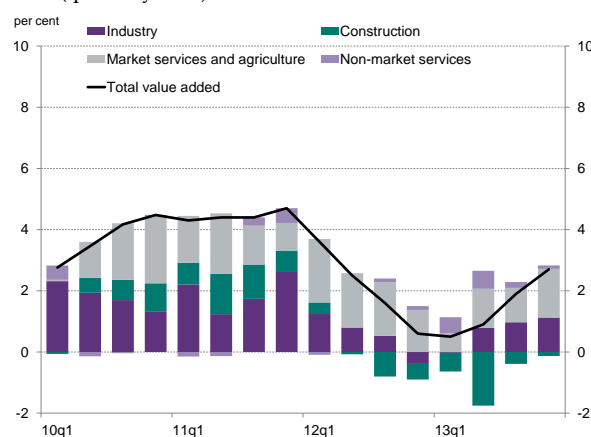
In 2013, net exports made the largest contribution to GDP growth (1.6 percentage point). In the first half of the year export growth remained at a low level, and imports declined. The fall in imports stemmed from low growth of highly import-dependent export production and weak domestic demand. In the second half of the year, as the economic situation improved both at home and abroad, exports and imports increased. Due to a stronger recovery in exports than imports, the contribution of net exports to GDP growth remained clearly positive.

Figure 13 Contribution to gross value added growth in 2004-2013 (annual data)



Source: GUS data, NBP calculations.

Figure 14 Contribution to gross value added growth in 2010-2013 (quarterly data)



Source: GUS data, NBP calculations.

Gross value added growth fell from 2.0% y/y in 2012 to 1.5% y/y in 2013. This was primarily the result of a significant decline in the value added in construction, which, however, in the second half of the

¹⁹ Given low growth of gross fixed capital formation and negative contribution of change in inventories to GDP resulting from the pro-cyclical nature of this category, accumulation in 2013 dropped in comparison to 2012.

²⁰ The decline in public investment was mainly attributable to a reduction in spending on road projects from the National Road Construction Programme for 2011-2015 and the reduction of capital expenditure of local governments due to government fiscal rules.

²¹ In 2013 action aimed at reducing growth in expenditure of the public finance sector continued, particularly those of units outside the state budget. As a result, in 2013 the nominal increase in expenditure of the public finance sector was lower than the nominal GDP growth. Despite this action, the sector's deficit in terms of ESA95 rose to 4.3% of GDP (from 3.9% of GDP in 2012). The increase in the deficit resulted from the low growth of tax income of the public finance sector due to the persistent stagnation of domestic demand.

year stopped falling (Figure 13, Figure 14). In comparison with 2012 the gross value added accelerated in the industrial sector and non-market services.

Table 2 GDP and domestic demand in 2004-2013

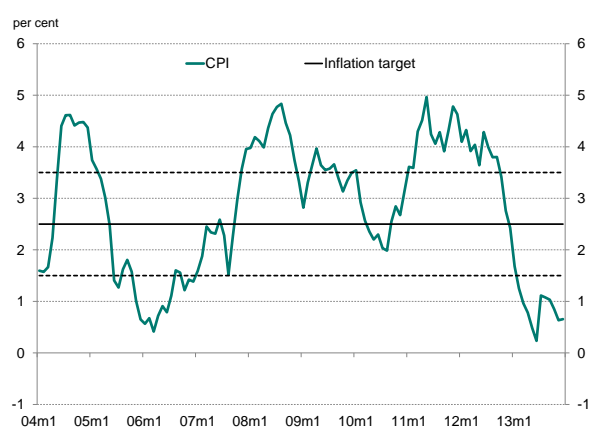
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GDP growth and its components at constant prices (%)										
GDP	3.9	3.6	6.2	6.8	5.1	1.6	3.9	4.5	2.0	1.6
Domestic demand	6.2	2.5	7.3	8.7	5.6	-1.1	4.6	3.6	-0.1	0.0
Consumption	4.3	2.7	5.2	4.6	6.1	2.0	3.4	1.6	1.0	1.2
Private consumption	4.7	2.1	5.0	4.9	5.8	2.1	3.2	2.6	1.3	0.8
Capital formation	14.7	1.4	16.1	24.3	3.9	-11.5	9.3	11.2	-4.0	-4.7
Gross fixed capital formation	6.4	6.5	14.9	17.6	9.6	-1.2	-0.4	8.5	-1.6	-0.2
Exports	14.0	8.0	14.6	9.1	7.1	-6.8	12.1	7.7	3.9	4.6
Imports	15.8	4.7	17.3	13.7	8.0	-12.4	13.9	5.5	-0.7	1.2
Contribution of net exports to GDP growth (percentage points)	-1.0	1.1	-1.1	-2.1	-0.6	2.7	-0.7	0.9	2.0	1.6
Structure of GDP at current prices (%)										
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic demand	102.4	100.7	101.8	102.9	104.0	99.9	101.2	101.2	99.7	97.6
Consumption	82.3	81.5	80.8	78.4	80.1	79.6	80.2	79.1	79.2	78.8
Private consumption	63.7	62.5	61.6	59.6	60.7	60.2	60.4	60.3	60.6	60.0
Capital formation	20.1	19.3	21.1	24.4	23.9	20.3	21.0	22.1	20.5	18.7
Gross fixed capital formation	18.1	18.2	19.7	21.6	22.3	21.2	19.9	20.2	19.2	18.4
Exports	37.5	37.1	40.4	40.8	39.9	39.4	42.2	45.1	46.7	47.8
Imports	39.8	37.8	42.2	43.6	43.9	39.4	43.4	46.2	46.4	45.4
Net exports	2.4	-0.7	-1.8	-2.9	-4.0	0.1	-1.2	-1.2	0.3	2.4

Source: GUS data. NBP calculations.

Appendix 3. Consumer prices

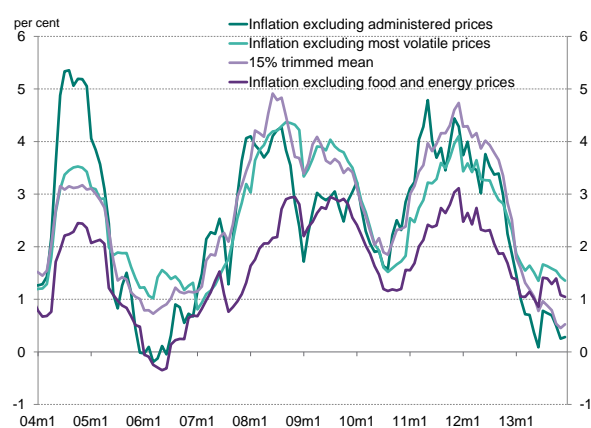
Following a period of heightened inflation, in 2013 the annual index of consumer prices (CPI) decreased substantially. The average annual inflation amounted to 0.9%, thus running below the NBP inflation target of 2.5% +/- 1 percentage point (Figure 15, Table 3). Inflation decrease was supported by the increases in the NBP interest rates performed in 2011-2012. Yet inflation decline was significantly stronger than expected due to supply shocks observed in that period (a decrease in commodity prices, especially those of energy and agricultural products) and slower than expected economic growth, which translated into weak demand and cost pressures. In 2013, price growth sank below its long-term average across all the key categories of goods (i.e. energy, food and non-alcoholic beverages, services and goods). Core inflation declined as well (Figure 16).

Figure 15 Annual CPI and the inflation target in 2004-2013



Source: GUS data.

Figure 16 Core inflation indices in 2004-2013 (y/y)



Source: GUS data, NBP calculations.

In 2013 global prices of energy commodities decreased. This, coupled with the somewhat strengthened zloty against the dollar²² and a fall in gas prices at the beginning of 2013²³, contributed to overall decline in energy prices in Poland. This negative energy price growth stood in contrast to the previous years and significantly lowered the CPI index. The decline in inflation in 2013 was also supported by food price growth being markedly slower than in previous years. The weaker growth of prices of food and non-alcoholic beverage occurred mainly due to favourable supply conditions in the agricultural commodity markets, amidst low demand. The growth in prices of goods and services was also constrained by slower than expected economic growth and the related modest wage increases (amidst an elevated unemployment rate and low inflation expectations). Another factor with a dampening effect on consumer inflation was a decline in producer prices (related to, above all, lower global commodity prices, amidst only a slight appreciation of the zloty). In turn, factors exerting an

²² In 2013, the nominal effective zloty exchange rate appreciated, in terms of its annual average, by 0.7% on the year before (specifically, it weakened against the euro by 0.3% while strengthening against the dollar by 2.9%).

²³ The decrease in gas prices from January 2013 came as a result of the decision of the President of the Energy Regulatory Office (URE) following a prior decline in the prices of gas purchased by the PGNiG company from Gazprom.

upward pressure on inflation in the middle of 2013 were mostly of an administrative nature – in July 2013, waste disposal charges were raised as the act changing the principles of managing municipal waste came into force.²⁴

The index of consumer goods and services prices reflects the trends in four main categories of prices (Figure 17, Figure 18). In detail, the decline in inflation in 2013 resulted from the following factors²⁵:

- The fall in the prices of **energy** (energy prices grew by 7.9% y/y in 2012, and decreased by 1.5% y/y in 2013), which reduced CPI inflation by 1.7 percentage points. The decline in energy prices resulted from:
 - lower fuel prices (a decrease in crude oil prices in the global commodity markets amidst a slight appreciation of the zloty against the dollar);
 - a decline in natural gas prices at the beginning of 2013 (a cut in gas tariffs following a prior decline in the prices of gas purchased by the PGNiG company from Gazprom²⁶);
 - a decline in electricity prices in mid-2013 (a reduction in tariffs due to low wholesale prices in the market for electricity²⁷).
- Slower growth in the prices of **food and non-alcoholic beverage** (food and non-alcoholic beverage prices increased by 4.3% y/y in 2012 and by 2.0% y/y in 2013), which translated into a decline of 0.6 percentage point in CPI inflation. The decline in this price category was caused, above all, by the following factors:
 - falling meat prices, in particular, those of poultry (due to large supply);
 - a decrease in the annual egg price growth (statistical base effects resulting from a significant rise in egg prices in 2012 after the new regulation on chicken cage breeding had entered into force);
 - slower growth in sugar prices as well as those of bread and cereal products (high supply of some agricultural commodities in the global markets).²⁸
- Slower **service** price growth (prices of services rose by 3.0% y/y in 2012 and by 2.0% y/y in 2013), which lowered CPI inflation by 0.3 percentage point. The decline in this price category was caused primarily by:
 - a decrease in the prices of telecommunication services (due to greater competition between the operators and the introduction of price promotions on telecommunication services);
 - a reduction in kindergarten fees (introduction of a ceiling on the hourly rate charged for a child's stay in kindergarten²⁹).

²⁴ In July, a sharp rise in the annual food price growth was observed, related to a change in the methodology for recording potato prices by the Central Statistical Office (GUS), as well as their low supply related to unfavourable weather and water conditions at the beginning of the year.

²⁵ The categories listed in the order reflecting their impact on the levels of the average annual overall CPI index in 2013.

²⁶ Decision of the URE President reducing the tariffs on natural gas sold to households of 17 December 2012.

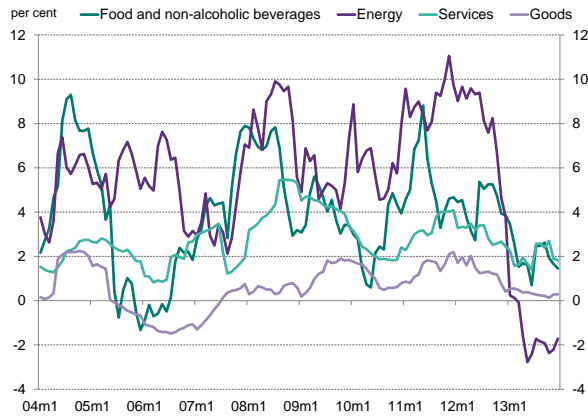
²⁷ Decision of the URE President reducing the tariffs on natural gas sold to households of 11 June 2013.

²⁸ A large supply of agricultural commodities was also observed in the markets for, among others, grain, oleaginous plants, sugar and coffee.

²⁹ The decline in the prices of services related to education was the effect of the *Act Amending the Act on the Education System and Certain Other Acts* (Journal of Laws of 2013, item 827). According to the new regulations, the hourly rate for classes in kindergarten (beyond the minimum 5 hours which, according to the *Act*, are free of charge) may not exceed PLN 1. The previous version of the *Act* did not put constraints on the amount of those fees.

- Slower **goods** price growth (good prices increased by 1.3% y/y in 2012 and by 0.3% y/y in 2013), which translated into a 0.3 percentage point fall in CPI inflation. The decline in this price category was primarily the effect of weak consumer demand.

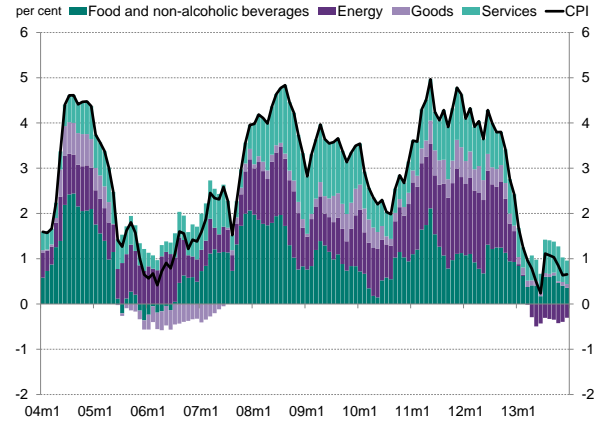
Figure 17 Annual growth in the prices of food, non-alcoholic beverages, energy, goods and service in 2004-2013



Source: GUS data, NBP calculations.

*The category of energy includes energy carriers (electricity, gas, heating fuel) and engine fuels (for private means of transport); the category of goods is exclusive of food, non-alcoholic beverages and energy.

Figure 18 Annual growth in the prices of consumer goods and services and the contributions of main price categories to CPI in 2004-2013



Source: GUS data, NBP calculations.

Table 3 Annual growth in consumer goods and services prices and the contribution of the main price categories to CPI

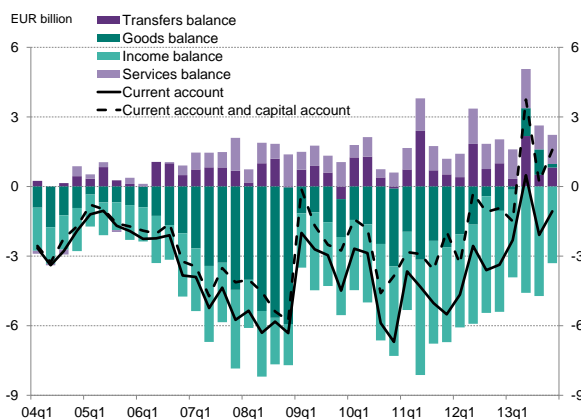
	Weights 2013, %	Change (y/y, %) 2013												yearly average
		I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	
CPI	100.0	1.7	1.3	1.0	0.8	0.5	0.2	1.1	1.1	1.0	0.8	0.6	0.7	0.9
Core inflation	57.8	1.4	1.1	1.0	1.1	1.0	0.9	1.4	1.4	1.3	1.4	1.1	1.0	1.2
Goods	29.3	0.5	0.6	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.1	0.3	0.3	0.3
Services	28.5	2.3	1.6	1.6	1.9	1.7	1.4	2.6	2.6	2.4	2.7	1.9	1.8	2.0
Food and non-alcoholic beverages	24.3	3.5	2.5	1.5	1.7	1.6	0.7	2.5	2.5	2.6	1.9	1.7	1.5	2.0
Processed	13.6	2.6	2.3	0.8	0.2	0.3	0.4	0.4	0.4	0.6	0.6	0.5	0.4	0.8
Unprocessed	10.7	4.5	2.9	2.5	3.5	3.2	1.1	5.1	5.2	5.2	3.7	3.1	2.7	3.6
Energy	17.8	0.2	0.1	-0.1	-1.6	-2.8	-2.4	-1.7	-1.9	-1.9	-2.4	-2.2	-1.7	-1.5
Energy carriers	12.5	1.6	1.2	0.9	-0.4	-0.4	-0.5	-1.3	-1.3	-1.4	-1.4	-1.4	-1.3	-0.5
Fuels	5.4	-2.9	-2.4	-2.3	-4.5	-8.2	-6.9	-2.7	-3.1	-3.0	-4.6	-4.2	-2.6	-4.0
according to 12 COICOP groups														
Food and non-alcoholic beverages	24.3	3.5	2.5	1.5	1.7	1.6	0.7	2.5	2.5	2.6	1.9	1.7	1.5	2.0
Alcoholic beverages and tobacco products	6.3	3.0	3.2	3.6	3.6	3.5	3.7	3.6	3.6	3.7	3.6	3.6	3.7	3.5
Clothing and footwear	4.8	-5.1	-5.1	-5.2	-5.1	-4.8	-4.7	-5.0	-4.8	-4.7	-4.8	-4.9	-4.9	-4.9
Home maintenance and energy carriers	20.8	2.6	2.3	2.0	1.1	1.1	1.0	2.3	2.3	2.2	2.1	2.1	2.2	2.0
Home equipment and household maintenance	4.6	1.7	1.7	1.4	1.2	1.0	0.7	0.7	0.5	0.4	0.1	0.4	0.1	0.8
Health	5.0	2.3	2.2	2.1	1.9	1.9	1.7	1.6	1.4	1.2	1.2	2.0	1.9	1.8
Transportation	9.4	-0.8	-0.6	-0.5	-2.2	-4.2	-3.5	-1.2	-1.4	-1.4	-2.3	-2.3	-0.9	-1.8
Telecommunications	4.1	-1.4	-4.5	-7.3	-7.3	-9.7	-9.7	-9.7	-9.7	-9.7	-7.2	-11.7	-11.6	-8.3
Recreation and culture	7.9	0.1	-0.2	1.5	3.5	3.8	3.4	2.9	2.9	3.9	4.1	3.8	3.3	2.8
Education	1.2	2.8	2.6	2.7	2.6	2.6	2.5	2.6	2.5	-5.9	-6.0	-6.0	-6.0	-0.3
Restaurants and hotels	6.4	2.8	2.7	2.5	2.4	2.4	2.2	2.1	2.0	1.9	1.8	1.8	1.7	2.2
Other goods and services	5.1	1.5	1.2	1.1	1.1	0.8	0.6	0.7	0.6	0.4	0.4	0.2	0.2	0.7
Contribution to CPI (in p.p.) 2013														
	Weights 2013, %	I	III	IV	V	VI	VII	VIII	IX	X	XI	XII	yearly average	
CPI	100.0	1.7	1.3	1.0	0.8	0.5	0.2	1.1	1.1	1.0	0.8	0.6	0.7	0.9
Core inflation	57.8	0.8	0.6	0.6	0.7	0.6	0.5	0.8	0.8	0.7	0.8	0.6	0.6	0.7
Goods	29.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Services	28.5	0.6	0.4	0.5	0.6	0.5	0.4	0.7	0.7	0.7	0.8	0.5	0.5	0.6
Food and non-alcoholic beverages	24.3	0.8	0.6	0.4	0.4	0.4	0.2	0.6	0.6	0.6	0.5	0.4	0.4	0.5
Processed	13.6	0.4	0.3	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Unprocessed	10.7	0.5	0.3	0.3	0.4	0.4	0.1	0.5	0.5	0.5	0.4	0.3	0.3	0.4
Energy	17.8	0.0	0.0	0.0	-0.3	-0.5	-0.4	-0.3	-0.3	-0.3	-0.4	-0.4	-0.3	-0.3
Energy carriers	12.5	0.2	0.2	0.1	0.0	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1
Fuels	5.4	-0.2	-0.1	-0.1	-0.2	-0.4	-0.4	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	-0.2
according to 12 COICOP groups														
Food and non-alcoholic beverages	24.3	0.8	0.6	0.4	0.4	0.4	0.2	0.6	0.6	0.6	0.5	0.4	0.4	0.9
Alcoholic beverages and tobacco products	6.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.7
Clothing and footwear	4.8	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	0.1
Home maintenance and energy carriers	20.8	0.5	0.5	0.4	0.2	0.2	0.2	0.5	0.5	0.5	0.4	0.4	0.5	0.6
Home equipment and household maintenance	4.6	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
Health	5.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transportation	9.4	-0.1	-0.1	0.0	-0.2	-0.4	-0.3	-0.1	-0.1	-0.1	-0.2	-0.2	-0.1	0.4
Telecommunications	4.1	-0.1	-0.2	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.5	-0.5	-0.3
Recreation and culture	7.9	0.0	0.0	0.1	0.3	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.3	-0.1
Education	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.2
Restaurants and hotels	6.4	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.9
Other goods and services	5.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7

Source: NBP calculations based on GUS data.

Appendix 4. Balance of payments

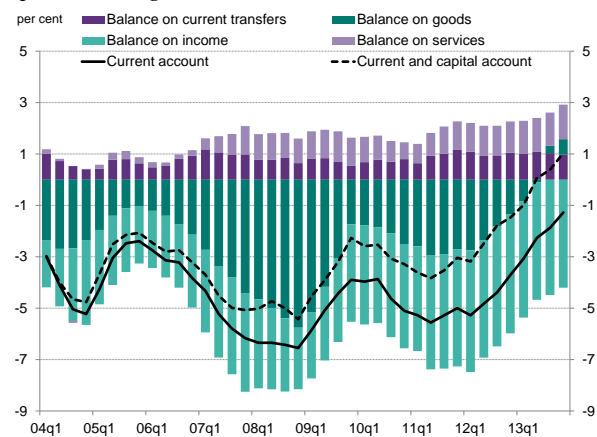
In 2013, the deficit on the current account narrowed down to -1.3% of GDP (from -3.7% of GDP in 2012). This was largely the effect of the improved balance on trade in goods (Figure 19, Figure 20, Table 4). The improvement in the current account balance was also supported by a higher surplus on the service account and a lower deficit on the income account.³⁰ Yet, the deficit on the income account continued to be the key factor which kept the current account balance in negative territory.

Figure 19 Current account balance (EUR billion) in 2004-2013



Source: NBP data.

Figure 20 Current and capital account balance to GDP (4 quarters rolling window) in 2004-2013



Source: GUS and NBP data.

The improvement in the balance on goods – particularly pronounced in the first half of the year – resulted, above all, from weak imports. Limited import demand in the first half of 2013 was related to poor performance of export production (which is characterised by high import intensity), declining domestic demand at that time and a decrease in the value of crude oil imports (due to a fall in the prices of this commodity in the global markets). As external trade began to recover in the second half of 2013, supported by a gradual improvement in business conditions both at home and abroad, the balance of trade in goods deteriorated somewhat towards the end of the year.³¹

The deficit on the income account in 2013 was slightly lower than in 2012. As in previous years, the negative balance on this account was primarily attributable to the high income obtained by non-residents on their investment in Poland, including in particular, direct and portfolio investment. A slight narrowing in the deficit on income resulted from a further decline in foreign investors' income on direct and other investment, amidst a rise in their income on portfolio investment.

³⁰ The increase in the surplus on services resulted primarily from a marked rise in the surplus on transport services.

³¹ In 2013 Q2, Q3 and Q4, a surplus was recorded on trade in goods.

Table 4 Main items on the balance of payments (EUR million) in 2004-2013³²

Balance of payments	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
A. Current account	-10 736	-5 856	-10 425	-19 245	-23 799	-12 152	-18 129	-18 519	-14 191	-4 984
Balance of trade in goods	-4 826	-2 508	-5 829	-13 827	-20 928	-5 427	-8 893	-10 059	-5 175	2 309
Balance of services	28	585	582	3 441	3 475	3 427	2 334	4 048	4 642	5 249
Balance of income	-6 775	-5 490	-7 728	-11 928	-8 685	-11 828	-14 415	-16 869	-17 662	-16 377
Balance of current transfers	837	1 557	2 550	3 069	2 339	1 676	2 845	4 361	4 004	3 835
B. Capital account	954	786	1 666	3 418	4 068	5 080	6 453	7 254	8 550	9 011
C. Financial account	6 629	12 151	10 586	27 621	25 924	24 597	30 936	23 091	17 549	2 182
Polish direct investment abroad	-757	-2 792	-7 137	-4 020	-3 072	-3 335	-5 484	-5 935	-607	3 684
Foreign direct investment in Poland	10 237	8 330	15 741	17 242	10 128	9 343	10 507	14 896	4 763	-4 574
Portfolio investment – assets	-1 055	-2 008	-3 685	-4 606	1 701	-1 009	-799	628	-335	-2 059
Portfolio investment – liabilities	8 486	11 797	1 485	-20	-3 655	11 303	20 041	11 266	16 134	1 640
Other investment – assets	-9 602	-2 181	-3 137	-1 321	4 039	3 911	-2 837	-2 605	-1 605	427
Other investment – liabilities	-834	-1 132	7 868	21 804	17 527	5 681	10 090	4 972	-3 045	2 672
Derivative financial instruments	154	137	-549	-1 458	-744	-1 297	-582	-131	2 244	392
D. Errors and omissions	3 838	-627	204	-2 414	-8 621	-7 111	-7 767	-7 132	-3 171	-5 452
Sum: A to D	685	6 454	2 031	9 380	-2 428	10 414	11 493	4 694	8 737	757
E. Change in official reserve assets	-685	-6 454	-2 031	-9 380	2 428	-10 414	-11 493	-4 694	-8 737	-757

Source: NBP data.

In 2013, the balance of current and capital transfers was close to the figure observed in 2012: the increase in Poland's EU membership fee was offset by a higher inflow of funds under the Cohesion Fund.³³

The combined balance of the current and capital accounts improved significantly, rendering a sizeable reduction in the financial account surplus (Table 5). The narrowing of the surplus on the financial account was driven by the negative balance on foreign direct investment (caused by withdrawing some share in equity from a Polish daughter-company under the so-called capital in transit transaction³⁴) and a significantly lower inflow of foreign portfolio investment. Net portfolio investment inflows were curbed by the rise in global risk aversion and capital being redirected to less risky assets denominated in major world currencies. A factor prompting some of the foreign investors

³² With regard to the financial account, the presented figures should be interpreted as follows: positive (negative) value of residents' investment abroad (items: Polish direct investment abroad, portfolio investment: assets, other investment: assets) denote a decrease (increase) in Polish assets abroad. Conversely, positive (negative) value of non-residents' investment in Poland (items: foreign direct investment in Poland, portfolio investment: liabilities, other investment: liabilities) mean an increase (decrease) in Polish liabilities towards non-residents. The sum of items A to D is equivalent to the amount of transactions by NBP. In the balance of payments convention, the opposite sign is used with respect to the item "change in official reserve holdings": a negative sign denotes an increase in the official reserve assets, while a positive sign denotes a decrease in these assets.

³³ As a result, the combined balance of the current and capital accounts improved significantly, amounting to 1.0% of GDP as compared with -1.5% GDP in 2012.

³⁴ Those transactions were of purely financial nature (transfer of funds within a capital group) and were not reflecting economic developments in Poland. In particular they were not the result of weaker economic slowdown.

to realise their profits – especially in 2013 Q2 and Q3 – were the high prices of Polish sovereign bonds in that period.

As a result of the improvement in the current account balance and the lowering of the foreign debt of Poland, some indicators of Poland's external imbalance improved. In particular, the ratio of the current account deficit to GDP decreased, with a surplus appearing on the combined current and capital account balance. Moreover, the relation of Poland's external debt to GDP decreased. At the same time, due to lower value of Polish assets abroad (in a form of official reserve assets and foreign direct investment) the country's negative net international investment position further deepened (Table 5).

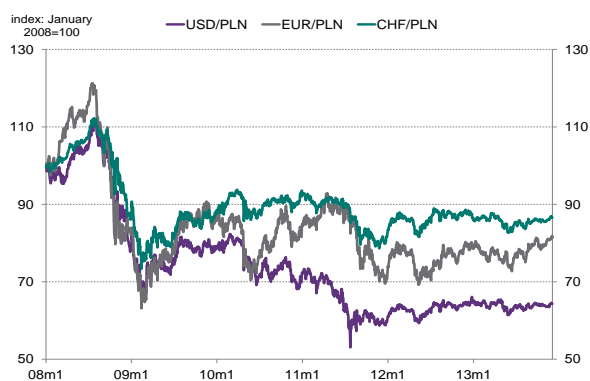
Table 5 Selected external stability indicators in 2004-2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Current account balance/GDP (%)	-5.2	-2.4	-3.8	-6.2	-6.6	-3.9	-5.1	-5.0	-3.7	-1.3
Current and capital account balance/GDP (%)	-4.8	-2.1	-3.2	-5.1	-5.4	-2.3	-3.3	-3.0	-1.5	1.0
Balance of trade in goods/GDP (%)	-2.4	-1.0	-2.1	-4.4	-5.8	-1.7	-2.5	-2.7	-1.4	0.6
Current and capital account balance/GDP (%)	-2.3	-0.8	-1.9	-3.3	-4.8	-0.6	-1.8	-1.6	-0.1	1.9
Official reserve assets in terms of monthly imports of goods and services	4.0	4.7	3.8	3.9	3.3	5.3	5.4	5.2	5.6	5.2
Foreign debt/GDP (%)	46.6	45.9	47.4	50.9	47.9	62.4	66.9	67.5	72.6	70.7
Net international investment position/GDP (%)	-46.2	-44.2	-46.4	-52.6	-47.5	-61.8	-66.0	-59.8	-68.0	-69.4

Source: NBP calculations based on GUS and NBP data.

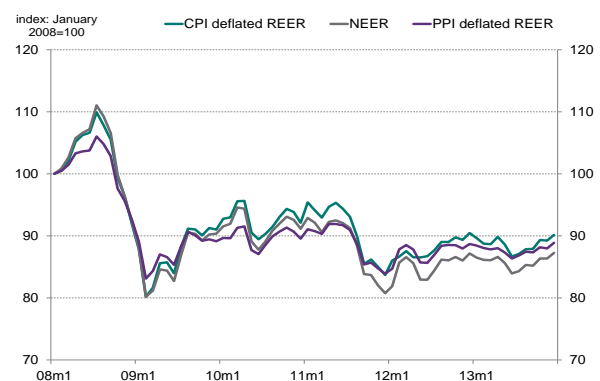
In the first half of 2013, the zloty exchange rate depreciated slightly on the back of heightened risk perception related to the so-called Cyprus crisis (in March), the announcement by the Federal Reserve of a possible tapering of its quantitative easing programme (in May and June), and relatively weaker – in comparison with previous expectations – data on Poland's economic growth. In the second half of the year, on the other hand, the currency strengthened. The appreciation of the zloty was mainly supported by the publication of stronger domestic macroeconomic data, including a significant reduction in the current account deficit. Another factor influencing the zloty movements was the improvement in the outlook for the euro area economic growth and an appreciation of the euro.

Figure 21 Nominal effective zloty exchange rate against major currencies in 2008-2013



Source: Bloomberg data
Increase denotes appreciation.

Figure 22 Real and nominal effective exchange rate in 2008-2013



Source: Eurostat, OECD, Reuters data, NBP calculations.
Increase denotes appreciation.

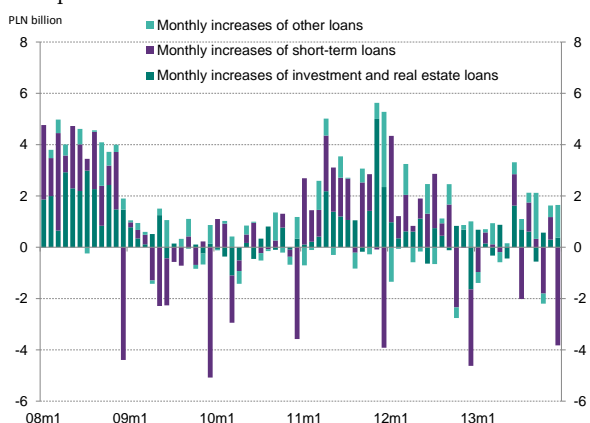
The nominal effective exchange rate (NEER) strengthened slightly in comparison to 2012 (Figure 21, Figure 22). The appreciation of the zloty against the dollar (by 2.9%) and the Swiss franc (by 1.8%) was accompanied by a slight weakening against the euro (by 0.3%).

Appendix 5. Money and credit

In 2013 – as in 2012 – growth in lending to the private sector remained at a low level.³⁵ The annual growth in private sector debt in 2013 stood at 3.9%, as compared to 4.4% in 2012.³⁶ Amidst weak economic activity, including weak investment activity, growth in corporate lending remained small. At the same time, as a result of the gradual recovery in consumer credit, combined with a stable – albeit low – increase in mortgage loans, household loan growth picked up somewhat.

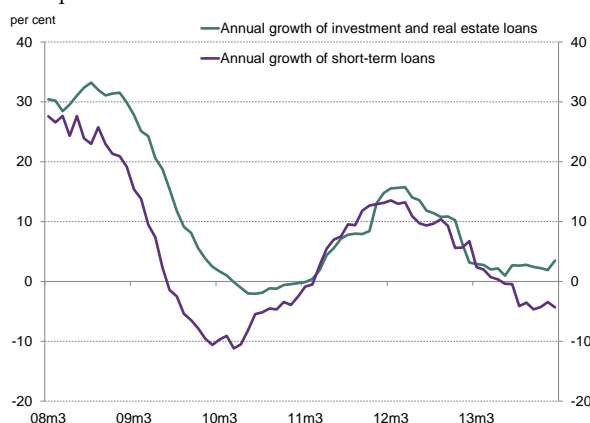
Growth in corporate loans in 2013 was small, which was caused by a fall in current loans and a limited increase in investment loans (Figure 23, Figure 24). Low lending to firms was driven by both limited corporate demand for external financing, as well as supply factors, associated with banks' lending policy. Although a significant reduction in NBP's interest rates in 2012-2013 translated into lower interest rates on loans, persistently stringent loan granting criteria and a certain tightening of lending terms resulted, especially in the first half of 2013, in lower credit growth.³⁷

Figure 23 Month-on-month changes in new PLN loans to enterprises in 2008-2013



Source: NBP data.

Figure 24 Growth rate of investment and current loans to enterprises in 2008-2013



Source: NBP data.

In turn, as regards loans to households, consumer loan granting criteria were considerably eased. However, the still relatively restrictive credit policy in mortgage loans segment limited the scale of the rebound in household lending (Figure 25, Figure 26).

The relaxation of banks' lending policy as regards consumer loans was largely related to the change of T Recommendation, mitigating the requirements to be met by borrowers.³⁸ Thus, this segment of the market saw a marked revival in the activity, which was additionally supported by growing demand for household loans. As a result – after two years of decline – consumer loans recorded positive growth again.

³⁵ Growth rates of monetary aggregates discussed in this chapter refer to transactional changes.

³⁶ The presented growth rates are annual growth rates for the private sector loans as of December 2012 and December 2013.

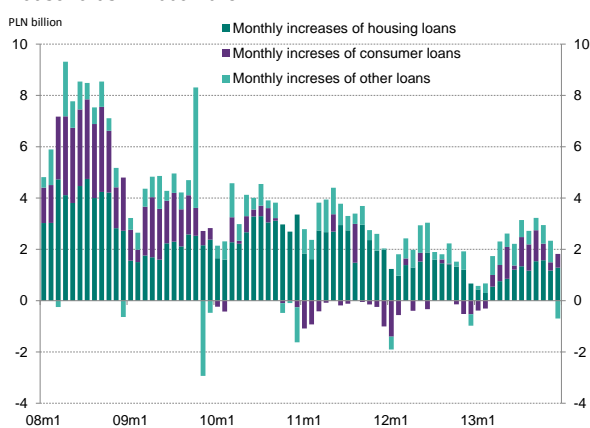
³⁷ The average annual interest rate of corporate loans in 2013 was by 1.7 percentage points lower than in 2012.

³⁸ The change in T Recommendation was adopted in February 2013.

In the housing loan segment, on the other hand, low interest rates combined with the anticipated tightening of lending policy due to the enacted more restrictive version of S Recommendation, supported growth in lending to households.^{39,40} At the same time, amidst a persistently unfavourable situation in the labour market and relatively restrictive banks' lending policies, the termination of the "Family on their own" (*Rodzina na swoim*) government-subsidized housing scheme in 2012 and the anticipated launch of the "Home for the young" (*Mieszkanie dla młodych*) scheme in 2014, limited the growth of housing loans.^{41,42}

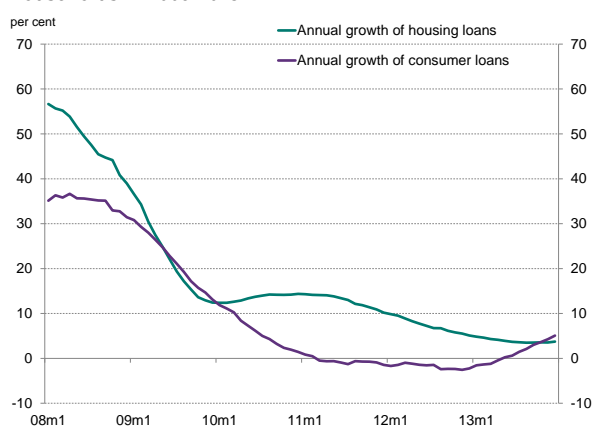
2013 saw a continued, steadily rising share of zloty-denominated loans in total housing loans, strengthening the efficiency of the monetary policy transmission mechanism.

Figure 25 Month-on-month changes in new PLN loans to households in 2008-2013



Source: NBP data.

Figure 26 Growth rate of investment and current loans to households in 2008-2013



Source: NBP data.

In 2013, the growth rate of broad money (M3 aggregate) remained similar to the 2012 level, i.e. below the long-term average (Figure 27). However, due to weak economic activity and low inflation, M3 growth exceeded nominal GDP growth.⁴³ The stable rise of M3 was driven by the rebuilding of corporate deposits amidst a certain slowdown in household deposits. A significant increase in corporate deposits reflected good financial standing of enterprises, amidst their persistently limited propensity to invest. In turn, in the case of households, smaller growth of relatively low interest-bearing deposits was accompanied by increased interest of saving in investment funds.

2013 saw a strong growth in more liquid M1 aggregate – as opposed to the relatively weak growth of M3 (Figure 27). This resulted primarily from changes in household preferences as to maturity structure of their assets – there was a rise in the share of cash and money deposited in current accounts. The change of preferences could result from lower interest rates on deposits, and –

³⁹ The new version of the S Recommendation entered into force in January 2014.

⁴⁰ The average annual interest rate on housing loans in 2013 was by 1.6 percentage points lower than in 2012.

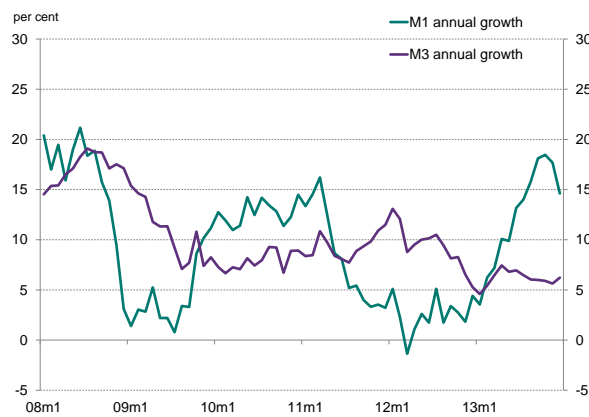
⁴¹ Banks' lending policy as regards mortgage loans to households changed only slightly. A certain easing in lending criteria was accompanied by a tightening of some lending terms. Yet, taking into account the 2012 tightening of criteria, banks' lending policy continued to be considered as relatively restrictive.

⁴² The average annual interest rate on consumer loans in 2013 was by 1.5 percentage points lower than in 2012.

⁴³ In transactional terms, M3 growth stood at 6.2% (in December 2013 as against December 2012), and the nominal GDP growth in 2013 stood at 2.3% (as compared to 2012).

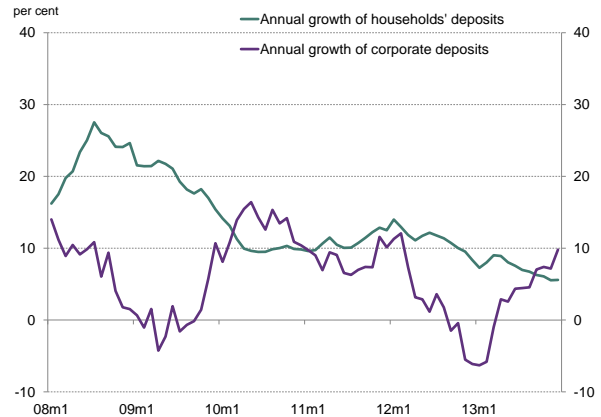
especially in the second half of 2013 – from the gradual recovery of sales being a sign of a rebound in private consumption.⁴⁴

Figure 27 M1 and M3 growth in 2008-2013



Source: NBP data.

Figure 28 Growth in household and corporate deposits included in M3 in 2008-2013



Source: NBP data.

⁴⁴ In turn, slower growth in M1 aggregate at the end of 2013 was driven by stronger growth in fixed-term corporate deposits.

Appendix 6. Minutes from the Monetary Policy Council decision making meetings

Minutes from the Monetary Policy Council Decision Making Meeting Held on 9 January 2013

At its meeting, the Monetary Policy Council discussed the current and future monetary policy decisions against the background of the domestic and external macroeconomic conditions.

While analysing the external conditions, it was pointed out that the global economic conditions remained weak. Yet, the uncertainty about the short-term global economic outlook had abated, mainly due to a partial agreement on the scale of fiscal tightening in 2013 in the US, development of institutional reforms in the euro area and further monetary policy easing by main central banks. These factors had also contributed to an improvement in financial market sentiment. At the same time, attention was drawn to protracted recession and continued fiscal tightening in a majority of the euro area member states. It was also indicated that the attempts to reduce general government sector imbalances might curb GDP growth and trigger a further rise in the unemployment rate in some euro area countries in the short term. A few members of the Council argued, however, that in 2013 Germany, Poland's main trading partner, was likely to experience higher GDP growth compared with other euro area countries. Yet, other Council members judged that although some improvement in the global economic conditions might be expected in the coming quarters, economic growth abroad would remain relatively weak.

While addressing economic conditions in Poland, the Council members agreed that the incoming data confirmed further weakening in economic activity in 2012 Q4. It was emphasised that the slowdown was driven by both external and internal factors. It was pointed out that the economic growth in 2012 Q4 was most probably below the November projection.

In the opinion of some Council members, the incoming data, including retail sales data, suggested that the consumption growth could be close to zero in 2012 Q4. While analysing factors behind a slowdown in consumption growth, the Council members pointed to a decline in real disposable income, driven, in particular, by deteriorating labour market conditions. It was emphasised that the slowdown in consumer spending growth was accompanied with a decline in the savings rate to its historical low.

While addressing investment activity, the opinion was expressed that investment growth had probably remained negative in 2012 Q4. Attention was drawn to considerable cuts in public investment expenditure, in particular of local governments, at the end of 2012, related to the necessity of reduction in fiscal imbalances. As regards corporate investment, a few Council members pointed out that in the previous years, strong investment growth had been supported by excessively optimistic sentiment in corporate sector and EU funds inflow.

While discussing the recent developments in the banking sector, a few Council members pointed to still tight lending conditions and slowing deposit growth. Against this background, they also indicated that, following interest rate cuts by the NBP at the previous Council meetings, the interest on deposits fell significantly stronger compared with the interest on loans.

While addressing the Polish economic outlook, the Council members pointed out that GDP growth would stay low in the coming quarters. Consumption would be still adversely affected with slow growth in disposable income of households, driven by the deteriorating labour market conditions, and a higher effective personal income tax rate as of 2013. As regards the labour market conditions, some Council members expected further deterioration, which would be likely reflected in a further rise in the unemployment rate. A few Council members pointed out that the rise in the disability pension contribution in 2012 and a relatively high relation between the minimum and the average wage might dampen the labour demand. Moreover, consumption will be adversely affected with limited room for a further decline in savings rate. While analysing the investment outlook, the Council members assessed that, in particular, a further decline in the estimated value of newly launched investment projects suggested that the investment growth would stay negative in the coming quarters. It was pointed out that a decline in investments of central government and of local governments co-financed with the EU funds would also be conducive to a fall in investment expenditure. At the same time, it was assessed that economic growth would further be supported mainly by net exports. Therefore, demand prospects in the euro area posed a risk to Polish economic outlook. Some Council members were of the opinion that economic growth in Poland might increase along with the likely rebound in economic activity abroad in the second half of 2013.

While addressing inflation developments in the Polish economy, the Council members pointed out that the CPI inflation had declined notably in recent months and had been close to the NBP target in November. It was emphasised that the decline in CPI inflation had been largely driven by slower growth in the commodity prices, including food and energy, which previously had contributed to faster price growth. Core inflation had also declined, indicating no demand pressure. Against this background, attention was paid to a downward revision in inflation expectations of both households and corporates. At the same time, the majority of the Council members believed that in the coming months inflation would decline further and then stabilize below the inflation target for at least one year. In the opinion of the Council members, the decline in inflation would be driven by both decreases in energy prices as of January 2013, negative output gap and lack of wage pressure in the economy. At the same time, some Council members pointed at uncertainty about inflation developments in the longer term. This uncertainty was driven, in particular, by possible considerable changes in commodity prices in the global markets as well as in utility prices. Moreover, a few Council members pointed out that although in 2013 a further decline in core inflation could be expected, it would probably stay elevated considering this business cycle stage.

While discussing the NBP interest rates, as at previous meetings, it was assessed that at the current meeting the NBP interest rates should continue to be lowered, which should support economic activity and reduce the risk of inflation falling below the target in the medium term. Yet, the Council members differed in their opinion as to the scale of cuts in NBP interest rate, both at the present meeting and during the entire cycle.

The majority of the Council members indicated that the incoming data – confirming the previously anticipated decline in inflation and protracted economic slowdown – did not justify a greater scale of cuts in the NBP interest rates at the current meeting. In the opinion of these Council members, also the risks related to growth in prices, in particular for commodities, advocated for maintaining the current scale of interest rate cuts. A few Council members also indicated that a sharp decrease in interest rates might lead to further decline in the propensity to save.

On the other hand, in the opinion of a few Council members, as the inflation was likely to stay below the NBP inflation target in the coming quarters, the NBP interest rates should be lowered more – or even far more – at the current meeting. These members pointed out that in particular the length of lags in the transmission mechanism would justify a relatively prompt monetary policy easing.

While referring to future decisions, the majority of the Council members did not rule out further monetary policy easing, should the incoming data, including the 2012 GDP data, confirm a protracted economic slowdown and should the risk of increase in inflationary pressure remain limited. In turn, other Council members declared that the already effected interest rate cuts were sufficient to limit the risk of inflation running significantly below the target in the medium term, and that the impact of potential further cuts in the NBP rates on economic activity would be small. At the same time, in the opinion of a few of these Council members, further monetary policy easing could, in the longer term, trigger a growth in imbalances in the Polish economy.

At the meeting, a motion was submitted to lower the NBP basic interest rates by 1.25 percentage points. The motion did not pass. A motion was also submitted to lower the NBP basic interest rates by 0.50 percentage points. The motion did not pass. At the meeting, a motion was also submitted to lower the NBP basic interest rates by 0.25 percentage points. The motion passed. The Council decided to decrease the NBP basic interest rates by 0.25 percentage points to the following levels: reference rate to 4.00%, lombard rate to 5.50%, deposit rate to 2.50% and rediscount rate to 4.25%.

Minutes from the Monetary Policy Council Decision Making Meeting Held on 6 February 2013

At its meeting, the Monetary Policy Council discussed the current and future monetary policy decisions against the background of domestic and external macroeconomic conditions.

While analysing the external conditions, it was emphasised that the global economic activity remained weak as suggested, in particular, by lower GDP growth in the United States in 2012 Q4 and persisting recession in the euro area. At the same time, attention was paid to a slight improvement in some economic indicators in major developed economies. Some Council members stressed that factors contributing to volatility of sentiment in the financial markets as well as sentiment of households and corporations had not come to an end.

While analysing the outlook for external business conditions, a few Council members pointed to a further downward revision in the outlook for GDP growth in 2013 in countries being Poland's main trading partners, i.e. the euro area countries, including Germany. Other Council members pointed out that although the global economic activity would probably remain relatively low in the coming

quarters, it was expected to show a gradual improvement in the second half of 2013. Considering the significant role of net exports in domestic GDP growth in the recent quarters, some Council members assessed that external economic developments in 2013 might have a stronger impact on economic activity in Poland than during the 2009 slowdown.

While analysing the data on economic growth in Poland in 2012 Q4 (implied from the 2012 preliminary GDP estimate), Council members pointed to a further weakening of domestic demand, driven, in particular, by lower consumption demand and further decline in investment. At the same time, some Council members stressed that during the previously observed periods of economic downturn, consumption had always been a factor supporting economic growth and thus the currently observed weakening in consumption might signal stronger weakening in domestic demand in the coming quarters, especially considering the unfavourable outlook for corporate investment and poor prospects for public investment growth. Other Council members assessed that the fundamentals of the Polish economy are still sound which was suggested by the absence of any major macroeconomic imbalances. Moreover, a few Council members argued that according to the currently available short-term forecasts, some GDP growth acceleration could be expected in the coming quarters.

When referring to consumption decline, some Council members pointed out that it was largely driven by worsening situation in the labour market, including low wage growth and intensified concerns about job loss amidst heightened unemployment. Declining consumption was also partly related to the deceleration in lending to households. A few Council members argued that low credit to GDP ratio in Poland as compared to other EU Member States suggested that the role of lending in supporting consumer demand was limited. At the same time, they pointed out that in the Central and Eastern European countries, where inflow of domestic savings to the banking system had been limited, diminished role of foreign capital as a source of lending had translated into deeper deceleration in credit growth. Those Council members indicated that in 2012 the growth in households' bank deposits in Poland had run considerably below its 2011 level which might have affected banks' lending policy. Some Council members assessed that supervisory measures and shrinking demand for lending from the private sector might have been of more importance for the lending volume.

While discussing developments in households' deposits in 2012, some Council members pointed out that although their lower growth had been, to certain extent, driven by larger inflows of capital to investment funds, this was also indicative of households' lower propensity to save especially amidst cuts in interest rates on deposits at the end of 2012. Other Council members were of the opinion that households' propensity to save was currently more determined by business conditions, with low propensity to save being typical of an economic slowdown, while interest rates on deposits had rather a limited impact.

Referring to investment activity, some Council members assessed that there were no signs that could point to any considerable growth in corporate investment which, combined with falling public investment, might translate into continued decline in this component of domestic demand. Yet, a few Council members emphasised that the decline in investment observed in 2012 Q4 was slightly weaker than in 2012 Q3 and according to available short-term forecasts, also in 2013 investment growth, although likely to remain negative, would be on the rise.

Council members also discussed the impact of fiscal policy on economic activity in 2013. Some Council members pointed out that further decline in public investment would dampen economic growth in the short term. Other Council members indicated, however, that the decline in public investment would be accompanied by growth in public consumption (also due to automatic stabilizers), and consequently, fiscal policy would not be a factor considerably dampening GDP growth.

While analysing inflation developments, the Council members pointed to further decline in CPI inflation which went down to 2.4% in December 2012, i.e. to the level consistent with the NBP inflation target of 2.5%. Also core inflation measures continued on a downward trend and the producer price index remained negative which, in the Council's opinion, was indicative of lack of wage and cost pressure in the economy. Decreasing inflation was accompanied by declining household inflation expectations. Some Council members pointed out that in the coming months inflation might decline to a level close to the lower limit of deviations from the inflation target and, considering that economic activity may continue to be weak in the coming quarters, there was a risk of inflation remaining below the target in the medium term. Other Council members stressed that the currently observed decline in inflation was largely the result of falling growth in energy and food prices which hit one of the lowest levels in years. Those Council members argued that particularly in the case of energy prices affected by global commodity prices, the decline might be a temporary phenomenon.

While discussing the NBP interest rates, the majority of the Council members assessed, as at previous meetings, that at the current meeting the NBP interest rates should continue to be lowered, which should support economic activity and consequently reduce the risk of inflation remaining below the target in the medium term. Yet, those Council members differed in their opinions as to the scale of cuts in the NBP interest rates, both at the current meeting and during the entire current cycle.

As at the January meeting, the majority of the Council members assessed that the incoming data – confirming the previously anticipated decline in inflation and significant economic slowdown – did not justify a greater scale of cuts in the NBP interest rates at the current meeting. In the opinion of a few Council members, concerns that too sharp decrease in interest rate could further undermine propensity to save in the banking sector speaks for maintaining the current scale of interest rate cuts.

In the opinion of some Council members, as there was a risk of inflation running below the NBP inflation target already in the coming quarters, the NBP interest rates should be lowered more – or even far more – at the current meeting. Those members pointed out that in particular the length of lags in the transmission mechanism would justify a relatively prompt monetary policy easing. Those Council members stressed also the relatively high level of real interest rates in Poland in comparison with the major developed economies.

Yet, a few Council members assessed that the current interest rate level was relatively low as compared to the previous periods of economic downturns and further monetary policy easing was not justified. Those members also argued that excessive interest rate cuts would be a factor lowering the

incentives to strengthen supply side of the Polish economy, which considering the depth of the current adjustments in some EU countries, including adjustments related to unit labour costs, would have an adverse consequences for GDP growth in the longer run.

While referring to future decisions, the majority of the Council members was of the opinion that the assessment whether it was justified to continue monetary policy easing would depend on the analysis of the incoming data on economic developments and inflationary pressure, including the results of the March macroeconomic projection of the NBP. A few Council members indicated that considering the already implemented monetary policy easing as well as expected gradual improvement in business conditions in the second half of 2013, the current cycle of NBP interest rate cuts might be approaching a pause or an end.

At the meeting, a motion was submitted to lower the NBP basic interest rate by 1.0 percentage point. The motion did not pass. A motion was also submitted to lower the NBP basic interest rate by 0.5 percentage points. The motion did not pass. At the meeting, a motion was also submitted to lower the NBP basic interest rate by 0.25 percentage points. The motion passed. The Council decided to decrease the NBP basic interest rates by 0.25 percentage points to the following levels: reference rate to 3.75%, lombard rate to 5.25%, deposit rate to 2.25% and rediscount rate to 4.00%.

Minutes from the Monetary Policy Council Decision Making Meeting Held on 6 March 2013

At its meeting, the Monetary Policy Council discussed the current and future monetary policy decisions against the background of macroeconomic data and the March projection of inflation and GDP.

While analysing the external conditions, it was pointed out that in 2012 Q4 economic growth in the United States had come to a halt and economic activity in the euro area had remained weak. It was emphasised that GDP in most euro area countries, including its largest economies, i.e. France and Germany being Poland's main trading partner, had declined in that period. At the same time, attention was drawn to signs of some improvement in economic indicators in several euro area countries in the first months of 2013. However, there were doubts expressed whether this already indicated a recovery in these countries. Some Council members expected the recession in the euro area to abate at a slow pace. In this context, attention was drawn to an increase in political uncertainty in Italy, which could dampen the business sentiment in the euro area and in the financial markets.

While analysing the economic developments in Poland, the Council members emphasised that the GDP data on 2012 Q4 had confirmed a pronounced slowdown in the economy in that period. Attention was drawn to continued weakening in domestic demand, which was driven by both further investment decline and decreasing consumer demand. It was indicated that the monthly data, released since the previous meeting, implied that also in early 2013 the economic activity had remained weak. At the same time, it was noted that the monthly data on industrial output and retail sales were somewhat better than had been expected and some economic indicators had improved of late, which might suggest an increase in economic activity in the coming quarters.

The majority of the Council members were of the opinion that an on-going deterioration in labour market conditions and slow household lending growth were containing demand growth in Poland, in

particular with respect to consumer demand. Against this backdrop, some Council members pointed to a continued gradual rise in the unemployment rate observed in recent years. This limits wage pressure in the economy and adversely affects consumption growth. However, a few Council members noted that rising unemployment rate in the past few years had been driven to a large extent by growing labour supply rather than falling employment.

While discussing lending developments, an opinion was voiced that credit policy tightening of banks was an important factor behind weaker lending growth. Against this background, a few Council members pointed out that even if standards for household lending were eased, this would not translate into any marked rebound in household lending due to declining household credit demand. It was pointed out that cuts in the NBP interest rates would contribute to faster lending growth. At the same time, a few Council members emphasised that the recent NBP interest rate cuts had translated into greater decreases in interest rates for bank deposits than for bank loans, while household and corporate lending growth remained low despite monetary policy easing, which was due to lower credit demand. A few Council members pointed out that lower interest rates on bank deposits might weaken household propensity to save.

While discussing the outlook for economic growth against the background of the March projection, the majority of the Council members stressed that, according to the projection, even though the GDP growth would probably accelerate gradually in the coming quarters, it would remain low. It was also pointed out that in line with the projection, domestic demand growth would continue to be very slow in 2013, with the output gap remaining negative over the projection horizon. This suggests a limited risk of mounting wage pressure in the coming years. Yet, a few Council members were of the opinion that GDP growth might run slightly higher than projected. These members argued specifically that improvement in the economic situation abroad, as assumed in the projection, should translate into faster GDP growth in Poland. In addition, referring to the data on restructuring in the Polish enterprise sector, these members expressed their doubts on the total factor productivity growth assumed in the projection. In their opinion, this growth could be lower compared to the projection, which would result in potential output growing slower and output gap closing faster than in the projection.

While analysing CPI inflation developments, attention was drawn to its decline in January 2013 close to the lower limit for deviations from the NBP inflation target. It was stressed that in line with the March projection – under the assumption of unchanged interest rates –inflation would remain close to the lower limit for deviations from the inflation target over the projection horizon. In the light of the projection, such CPI inflation developments are to result from low energy price growth in the coming years and a decline in core inflation. The expected decrease in core inflation and unit labour costs growth indicate still low demand and cost pressure in the years to come.

In the opinion of some Council members, inflation might run above the projection path. Those members indicated that the global geopolitical situation remained an important upside risk for energy prices. They also argued that – under the assumption of faster growth in energy prices – inflation

might run close to the inflation target in the coming quarters, hence above the projection. A few Council members were of the opinion that, given an acceleration in labour productivity growth as shown in the projection, wage growth should not run close to historical lows. As a result, unit labour costs might, in their opinion, grow faster than in the projection, which would contribute to higher inflation. Also faster than projected growth in private consumption might spark faster price growth. Moreover, it was pointed out that another factor increasing CPI inflation compared to projection path was that VAT rate hike could remain in force in the coming years, should the impact of economic downturn on the public finance sector prove to be stronger than currently assumed.

While discussing the NBP interest rates, the majority of the Council members decided that they should be lowered at the March meeting. However, their opinions differed as to the scale of the NBP interest rate cuts. Some members of the Council assessed, though, that the interest rates should be kept unchanged at the current meeting.

The majority of the Council members assessed that – as the March projection assumed inflation to stay markedly below the NBP inflation target and the output gap to remain negative in the coming years – it was justified to continue to lower the NBP interest rates. In this context, these members argued that, even after interest rate cuts, real interest rates would remain markedly positive at levels ensuring that the risk of a build-up of imbalances in the economy would be contained.

The majority of the Council members were of the opinion that the incoming data and the outlook for the economy as shown in the projection justified stronger interest rate cuts than at previous meetings. However, a few Council members reckoned that the scale of the interest rate cuts at the March meeting should not be larger than at the previous meetings. In the opinion of these Council members, concerns of excessive interest rate cuts leading to a further decline in propensity to save in the banking sector, suggest maintaining the previous pace of monetary policy easing.

On the other hand, a few Council members assessed that the current interest rate level was low as compared to previous periods of the economic slowdown, and that further monetary policy easing was unjustified. Therefore, in their opinion, as the risk of inflation running above the projection was high in the medium term, the current interest rate level was appropriate for inflation to return to the target over this period. They assessed that excessive interest rate cuts would undermine the supply side of the economy, including the restructuring intensity in the enterprise sector, and as a result might have an adverse effect on GDP growth in the longer run.

In the opinion of the majority of the Council members, the interest rate cuts both at the current and at the previous meetings, will help to ease monetary conditions and support higher economic growth, and consequently, help to bring inflation close to the target in the medium term. The majority of the Council members recognised that the decision to lower interest rates at the current meeting complemented the interest rate cut cycle.

However, a few Council members did not rule out the possibility of a further interest rate adjustment, should the incoming data point to weaker economic activity or lower inflation than in the March projection.

At the meeting, a motion was submitted to lower the NBP basic interest rates by 0.50 percentage points. The motion passed. A motion was also submitted to lower the NBP basic interest rates by 0.25 percentage points. As the motion to lower the NBP basic interest rates by 0.50 percentage points had passed, this motion was not voted on. The Council decided to lower the NBP basic interest rates by 0.50 percentage points to the following levels: reference rate to 3.25%, lombard rate to 4.75%, deposit rate to 1.75% and rediscount rate to 3.50%.

Minutes from the Monetary Policy Council Decision Making Meeting Held on 10 April 2013

During the meeting, members of the Monetary Policy Council discussed the current and future monetary policy decisions against the background of macroeconomic developments in Poland and abroad.

While addressing the external conditions it was pointed out that in 2013 Q1 the euro area had probably remained in recession and the outlook for recovery in this economy continued to be highly uncertain. In this context, Council members emphasised that in the recent period GDP forecasts for the euro area in 2013 had been revised downward, and economic indicators, after a certain improvement at the beginning of the year, deteriorated. Against this background attention was also drawn to weak business climate indicators in France. Yet, it was argued that in Germany, Poland's main trading partner, business conditions in 2013 Q1 were better than in the entire euro area. Moreover, it was indicated that Germany was expected to see a certain acceleration in economic activity growth in 2013 and 2014, which might be related to rising domestic demand supported by high employment and low unemployment. Attention was also drawn to a relatively favourable outlook for demand in the United States and in Japan. Yet, concerns were expressed that economic growth in some advanced economies in the subsequent years would remain relatively low – in the opinion of a few Council members also due to large share of government expenditure in GDP.

The Council members emphasised that strongly expansionary monetary policy pursued by major central banks, including the announcement of considerable quantitative easing by the Bank of Japan, might lead to intensified inflow of portfolio capital to the emerging economies, including Poland. As a result, those factors support Treasury bonds price increases, yet, in the longer term, might increase volatility of those prices and of the zloty exchange rate, in particular amidst sudden shift in risk aversion in the global markets. Yet, a few Council members remarked that the inflow of portfolio capital observed in the recent period had not been accompanied by any significant appreciation of the zloty. In turn, other Council members pointed out that recurring intensification of banking sector problems in some euro area economies might be a risk factor for Poland's financial sector.

While discussing the economic developments in Poland, Council members indicated that in 2013 Q1 economic activity had remained weak without signs of recovery. In this context, it was emphasised that industrial output in February had declined following its merely slight increase in January, whereas construction output growth continued to be negative. The Council members also pointed out that consumer demand had remained low, despite a certain improvement in consumer sentiment observed in the recent period, which was reflected in negative annual growth in retail sales in

February 2013. According to the Council members, weak economic activity in Poland in 2013 Q1 was also suggested by weak business climate indicators, despite a certain improvement in some of those indicators in the recent period. Attention was also drawn to financial results of corporations which had deteriorated in 2012 Q4. At the same time, it was emphasised that financial condition of corporations exporting their output continued to be better than that of companies selling their goods in the domestic market.

While analysing the situation in the labour market, lack of wage pressure was emphasised. Acceleration in annual growth in enterprise sector wages observed in February was probably driven by the statistical base effect and was one-off in nature. Some Council members observed that low demand in the economy contributed to a further rise in the unemployment rate, which, in their opinion, might have an adverse effect on human capital, and, consequently, the economy's potential product. Yet, a few Council members expressed an opinion that the observed rise in the unemployment rate was largely the result of growing labour supply and adjustments in employment in enterprises, following the previously observed excessive employment growth. Those members argued that the labour market situation should improve with a rebound in production. The Council members also pointed to the structural features of the labour market, including its elasticity as regards employment contracts. A few of them argued that this elasticity favoured low labour remuneration which, on the one hand, helped enterprises to maintain their competitive advantage, but, on the other hand, had a negative impact on household savings and consumption. Yet, other Council members emphasised that weak geographical mobility of working population, resulting from poorly developed home rental market, was a considerable problem affecting the labour market.

Members of the Council emphasised that weak economic activity was accompanied by a decline in corporate lending growth both as regards current and investment loans and a low growth in lending to households. A few Council members also pointed to falling value of new household deposits in February. Other Council members indicated, however, that despite interest rate decrease in the recent period – the annual growth in household deposits observed in February exceeded the January growth.

While assessing the outlook for demand growth in Poland, the majority of the Council members believed that in the coming quarters GDP growth should accelerate, albeit would remain moderate. Slightly higher GDP growth would be, in the opinion of some Council members, the result of somewhat accelerating export growth driven by improving conditions in the German economy in the subsequent quarters. A few Council members also pointed out that declining inflation would stimulate purchasing power of consumer income which would, in turn, support domestic demand. Yet, some Council members were of the opinion that recovery in the Polish economy might be delayed, and the moment and scale of GDP growth acceleration were subject to uncertainty, especially given the uncertainty about recovery in the euro area. Other Council members, however, argued that GDP growth acceleration in the subsequent quarters might be stronger than indicated by the March projection of the NBP.

With reference to inflationary processes, Council members highlighted the fact that the CPI index had decreased below the lower limit for deviations from the target – as well as the level envisaged in the March projection. In this context they pointed to a decline in all core inflation measures, confirming low demand pressure prevailing in the economy. Yet, a few Council members were of the opinion that

the recently observed decline in inflation had largely been the result of supply shocks. Most Council members believed that CPI inflation would continue to run below the lower limit for deviations from the NBP inflation target, whereas core inflation would remain low and stable. However, some Council members pointed to factors that might drive future inflation higher than forecasted. It was pointed out that amidst low tax revenues, there was a significant likelihood of the VAT rate being kept at the elevated level into 2014, which would shift up the CPI inflation path for 2014 indicated by the March NBP projection. Yet, other Council members argued that higher-than-assumed VAT rate would curtail the purchasing power of households' income, thus limiting demand pressures in the economy. In addition, some Council members indicated short-term upward risks to prices, relating to the prolonged winter, which could contribute to increase in the prices of food and municipal services. A few Council members also observed that the current and forecast core inflation was running at levels which in the past had allowed to keep CPI inflation within the symmetrical tolerance band of deviations from the target.

While discussing the level of the NBP interest rates it was agreed that these should be kept unchanged at the present meeting, in particular amidst ambiguous signs of a possible economic recovery in the subsequent quarters. At the same time, while addressing future decisions, some Council members were of the opinion that another interest rate cut in the coming months might be justified should there be no clear signs of rebound in the Polish economy, and should the likelihood of inflation persisting below the NBP target in the medium term rise. In the opinion of these Council members, an argument in favour of a further rate cut would be that real interest rates remained relatively high due to sharper than forecast inflation decline combined with decreasing inflation expectations, and the absence of clear signs of recovery in the Polish economy. At the same time, some Council members emphasised the fact that the relatively large interest rate disparity vis-a-vis advanced economies might fuel the inflow of portfolio capital to Poland, particularly in the environment of high liquidity in the global markets which received an additional boost from a marked increase in monetary expansion by the Bank of Japan.

Some Council members believed, however, that the NBP interest rates should not be lowered further, as GDP growth was anticipated to accelerate in the subsequent quarters and CPI inflation in 2014 was likely to run above the level envisaged by the projection. A few of those Council members argued that further interest rate cuts might limit the scale of restructuring of unprofitable enterprises, hampering reallocation of resources towards more productive enterprises. At the same time, in their opinion, further NBP interest rate cuts would not support demand in the economy, as the current downturn was mainly caused by weak sentiment of economic agents and low external demand growth. These members also believed that interest rate cuts might lead to an excessive rise in Treasury bond prices, which could increase the macroeconomic risk in the event of a sudden outflow of capital in the future. Other Council members argued that keeping real interest rates at a relatively high level would stimulate deposit growth, thus supporting the stability of the banking sector, in particular amidst the uncertainty about the stability of the banking sector persisting in some euro area countries.

The Council decided to keep the basic interest rates unchanged at the following levels: reference rate at 3.25%, lombard rate at 4.75%, deposit rate at 1.75%, rediscount rate at 3.50%.

Minutes from the Monetary Policy Council Decision Making Meeting Held on 8 May 2013

At its meeting, members of the Monetary Policy Council discussed the current and future monetary policy decisions in the context of the macroeconomic situation in Poland and abroad.

Referring to external conditions, it was emphasized that signs of renewed weakening in the global economic conditions had appeared in recent months. It was indicated that in Q1 GDP growth in the United States had been lower than expected by market participants and the sentiment of the local economic agents had deteriorated. It was further argued that continued measures to reduce the general government sector imbalances in the United States might contain the economic growth in the coming quarters. Meanwhile, the euro area is likely to have remained in recession and a renewed deterioration in leading indicators in most of its member states, including Germany, may imply that the economic recovery may be delayed. A few Council members indicated at the same time that, according to external forecasts, economic conditions in Germany, the main trading partner of Poland, were set to improve gradually in the second half of the year. Referring to the recent data on economic activity abroad, it was also pointed out that the deteriorating economic conditions in developed countries translated into weaker growth in major emerging market economies.

While discussing price developments abroad, it was noted that inflation had declined in many economies, including the euro area. A few Council members emphasized, however, that core inflation in the euro area had remained stable, whereas lower price growth in the region, as in other economies, had largely resulted from a decrease in commodity prices, including food and energy, observed in recent months.

While referring to the monetary policy of the major central banks, it was highlighted that the European Central Bank had decreased interest rates in May, which had led to an increase in the spread between the interest rates in Poland and the euro area. Council members emphasized that highly expansionary monetary policy of major central banks may continue to contribute to stronger portfolio capital inflows to emerging economies, including Poland. This contributes to a rise in sovereign bond prices. However, this can lead to an increase in the volatility of sovereign bond prices over time, in particular amid rapid changes in risk aversion in global markets.

While discussing the recent data on the Polish economy, Council members pointed out that estimate of GDP in 2012 Q4, including investment expenditure, had been revised down. It was assessed that in 2013 Q1 economic growth had probably remained low, as indicated by a decline in industrial and construction output and real retail sales growth, which had been close to zero. Council members also emphasized that economic indicators in April – after a temporary improvement in previous months – had weakened again.

Council members expressed a view that the labour market conditions were not conducive to accelerating consumer demand growth. In particular, the employment in the corporate sector continues to decline, while the seasonally-adjusted unemployment rate increases, which translates into a weak wage growth. In this context, it was pointed out that the wage growth in the enterprise

sector had been low and the real wage fund had declined. A few Council members noted, however, that the decline in inflation, in particular resulting from lower energy price growth, was conducive to strengthening the purchasing power of household incomes and to improving the financial position of enterprises.

While discussing the monetary developments, some Council members pointed out that the household and corporate loan growth had weakened further. At the same time, it was indicated that household and corporate deposits had increased in March. According to some Council members, the growth in household deposits could have been caused by an increase in the propensity to save amid economic slowdown and deterioration of the labour market. Against this backdrop, falling deposit interest rates do not contain the propensity to save. In this context, it was also noted that the decreases of NBP interest rates to date had been passed on into deposit rates to a greater extent than rates on loans, including in particular consumer loans.

While assessing the outlook for the economic activity in Poland, some Council members recognized that the uncertainty over the pace and timing of economic recovery had recently increased. This results in particular from deteriorating economic outlook abroad, which may translate into a lower contribution of net exports, the key demand factor of economic growth in the previous quarters, to GDP growth. Furthermore, some Council members emphasized no signals of a possible significant increase in domestic demand in the coming quarters. Some Council members also indicated that – due to higher than scheduled general government deficit in relation to GDP in 2012 and the likely upholding by the EU of excessive deficit procedure imposed on Poland – further fiscal tightening should be expected in the coming years, which would continue to contain demand growth. A temporary reduction in the investment co-financed with EU funds may be also conducive to lower economic activity. However, other Council members were of the opinion that the expected improvement in economic activity in Germany in the second half of 2013 should translate into a recovery in the Polish export sector. It was also noted that capacity utilization in the economy had grown in 2013 Q1, and that – in line with available forecasts – GDP growth should not decrease further and it is expected to accelerate gradually over coming quarters.

With reference to price developments, the majority of the Council members highlighted a further decrease of the CPI annual index, which has been running below the lower limit for deviations from the NBP inflation target since February 2013. Hence, the CPI inflation declined below the March projection. It was also stressed that core inflation had continued to decline, which confirms low demand pressure in the economy. At the same time it was indicated that a decline in food and energy price growth had significantly contributed to a decrease in inflation over recent months.

While assessing the outlook for inflation, the majority of Council members were of the opinion that in the coming quarters the CPI inflation was likely to stay below the March projection, which – along with the uncertainty over the pace of economic recovery in Poland – increases the risk of inflation running below the target in the medium term. Low inflation will also result from a decline in commodity prices in the global markets. Low inflation expectations of economic agents also point to

no risk of a significant acceleration in the price growth. However, some Council members pointed out that given an expected global recovery in the second half of 2013, commodity prices in global markets may increase back in one-year time horizon. These members also emphasized that the March projection did not account for the impact of the maintaining heightened VAT rate on the level of inflation in 2014. However, other Council members noted that, even if no decrease in VAT rate was taken into account, inflation should remain below the March projection.

While discussing the level of the NBP interest rates, the majority of Council members assessed that they should be lowered at the current meeting. However, their opinions differed as to the scale of the decrease. In turn, other Council members were of the opinion that the interest rates should be kept unchanged.

The majority of Council members were of the opinion that an adjustment of monetary policy easing cycle was justified, as the incoming data did not indicate any clear signs of economic recovery in the Polish economy and its environment, while the decline in inflation was stronger than in the projection, which raised the risk of inflation staying below the target in the medium term. Moreover – despite the lowering of interest rates to date – faster than previously forecasted decline in inflation and inflation expectations had translated into an increase in real interest rates. At the same time, some Council members pointed out that – amid ample liquidity in global markets – a relatively high interest rate spread between Poland and developed economies might excessively intensify the portfolio capital inflows into Poland. According to a few Council members, the NBP interest rates should be adjusted as fast as possible, which supports the greater scale of their reduction at the current meeting.

However, other Council members believed that due to expected acceleration in the GDP growth in the coming quarters and upside risks to inflation, the NBP interest rates should not be lowered at the current meeting, and furthermore, a few of those Council members argued that the cycle of the monetary policy easing should be terminated. In their opinion, the NBP interest rates were already at their historical lows and further decreases in the NBP interest rates would not support demand in the economy to a significant extent. In their opinion, the current slowdown was attributable mainly to weak sentiment of economic agents and a low external demand growth. Moreover, a few Council members were of the opinion that further lowering of interest rates could also adversely affect the restructuring in the Polish corporate sector, which influences economic growth over longer run. Low interest rates might also boost excessively risky investment projects.

With reference to future decisions, some Council members reckoned that further interest rate decreases could be justified in the coming months if the probability of inflation running below the NBP target over the medium term rose. In the opinion of a few Council members, the results of the next inflation projection should be considered when assessing whether it could be justified to decrease the interest rates.

At the meeting, a motion was submitted to lower the NBP basic interest rates by 0.50 percentage points. The motion did not pass. A motion was also submitted to lower the NBP basic interest rates by 0.25 percentage points. The motion passed. The Council decided to lower the NBP basic interest rates by 0.25 percentage points to the following levels: reference rate to 3.00%, lombard rate to 4.50%, deposit rate 1.50%, rediscount rate to 3.25%.

Minutes from the Monetary Policy Council Decision Making Meeting Held on 5 June 2013

At its meeting, members of the Monetary Policy Council discussed the current and future monetary policy decisions in the context of macroeconomic developments in Poland and abroad.

While assessing the conditions in the external environment of the Polish economy it was noted that data on the euro area GDP in 2013 Q1 had proven to be weaker than expected and confirmed continuing recession in the euro area. Some members of the Council pointed to the fact that although business condition indicators for the euro area had improved somewhat, as observed in the recent period, they continued to suggest persisting recessionary trends in that economy, further delaying the prospects for economic recovery. Factor having an adverse effect on economic activity in the euro area – according to those members of the Council – was the on-going process of deleveraging in the private sector and tightening of the fiscal policy. This translated, in particular, into further deterioration of the labour market situation in many countries, which, combined with unresolved capital shortfall of some euro area banks, hampered growth of the euro area economy.

At the same time, it was pointed out that GDP growth in the United States accelerated in 2013 Q1. An important factor supporting activity in the U.S. economy was revival of consumption, observed amidst gradually declining unemployment. Some members of the Council pointed out that, in the opinion of market participants, improving situation in the labour market and continued economic recovery might urge the Federal Reserve to limit the scale of asset purchases over the next few quarters. The signs of a possible reduction of monetary policy expansiveness by the Fed had strongly effected the sentiment in the global financial markets. Consequently, the emerging markets, including Poland, saw some outflow of its portfolio capital, which was reflected in the weakening of the zloty exchange rate and rising yields on Polish bonds.

While addressing domestic economic activity in early 2013, it was indicated that GDP growth in the first quarter was significantly weaker than expected. It was also stressed that although investment decline had slowed down somewhat, domestic demand continued to decline amidst stagnation in consumption. Moreover, lower contribution of net exports to GDP growth confirmed that low activity abroad, in particular, the recession in the euro area, was adversely affecting the Polish economy. It was also emphasized that the monthly macroeconomic data (stagnation of industrial output and retail sales and further decline in construction output in April) signalled continued weak economic activity at the beginning of 2013 Q2.

Some members of the Council assessed that also the coming quarters might be expected to see persistently low economic activity in Poland, and that recovery might start later than previously assumed. In their opinion, economic activity would continue to be negatively affected by deteriorating situation in the labour market, low credit growth and on-going fiscal tightening (including the decline in public investment). Economic growth would further be curbed – in the opinion of those Council members – by the lack of a significant recovery in the euro area.

Other members of the Council assessed, however, that subsequent quarters might be expected to bring gradual recovery in economic growth. In this context, they pointed to positive signals from the national accounts data, i.e. a less steep investment decline in 2013 Q1 and acceleration in GDP growth, added value and exports in quarter-on-quarter seasonally adjusted terms. Moreover, in their opinion, the approaching economic recovery might be suggested by the improvement in some business condition indicators, halting the decline in the number of new orders in industry and accelerating growth in monetary aggregates observed at the beginning of Q2.

While analysing inflation developments it was pointed out that April 2013 saw another decline in inflation (to 0.8%), which remained markedly below the NBP inflation target. Some members of the Council emphasized that the fall in inflation in the past few months has been stronger than expected in the March projection, and that some of the latest short-term forecasts indicated possible further decline in inflation in subsequent months and its remaining below the lower limit for deviations from the NBP target over the coming year. When discussing inflationary processes, the steepening fall in producer prices (PPI) and continued lack of wage pressure were also noted. According to the majority of the Council members, when taking into account the lack of cost and wage pressures and weak growth prospects, the risk of inflation running below target in the medium term was still greater than the risk of inflation exceeding the target, despite the monetary policy easing implemented so far and some depreciation of zloty exchange rate observed recently. A few members of the Council emphasized, however, that inflation could return to the NBP target within a few quarters, as suggested by forecasts of financial analysts and Assumptions for 2014 budget law adopted by the Ministry of Finance.

While addressing the situation in the labour market, a few members of the Council pointed out that although wage growth remained slow, the lowest wages were rising faster than the average ones, which was due to the currently implemented and planned increases of the minimum wage. This contributed to rising unemployment among the young and the low-skilled workers. A few members of the Council argued, however, that an excessively low minimum wage would discourage labour participation, and the current ratio of minimum wage to average wage did not seem high.

While analysing the situation in the banking sector, a few members of the Council pointed out that the recently implemented monetary policy easing had so far not contributed to a revival in lending, which – in their opinion – showed that further interest rate cuts offered only limited potential to boost economic activity. At the same time, those Council members pointed out that falling interest on term deposits, driven by NBP interest rate cuts, discouraged households from this form of saving; whereas term deposits are a relatively stable source of bank financing. Yet, other members of the Council emphasized, that the NBP interest rate cuts had been vastly passed through into interest rates on bank loans and deposits. They also stressed that as monetary policy transmission mechanism was characterised by considerable time lags, interest rate cuts should not be expected to translate immediately into lending and economic growth. In turn, as regards reduced volume of term deposits, those Council members indicated that withdrawn funds were transferred to current and savings accounts, and therefore only maturity structure of banks' liabilities changes.

In assessing the current interest rate level, some members of the Council emphasized that the scale of the monetary policy easing implemented so far was significant, and the NBP interest rates were

currently low. According to a few Council members, excessively low interest rates might bring negative effects, namely: undermine the incentives for corporate restructuring, change the structure of bank lending (increase role of mortgage loans, while limiting lending to corporates), spur unprofitable in the long-term investment projects, and lead to asset price bubbles. Those members of the Council also pointed out that some of those factors might translate into lower potential growth. Other members of the Council argued that corporate restructuring was hampered to a much larger extent by institutional and legal factors, and given banks' current attitude to lending, the risk of financing unprofitable investment was not high enough to justify keeping interest rates at – what they assessed to be – an excessively high level. Moreover, in the opinion of those Council members, declining current and forecasted inflation was increasing real interest rates above the level adequate to the current macroeconomic conditions. At the same time, as regards the risk of decreasing potential output growth, a few Council members pointed out that it might also be driven by a prolonged economic downturn, which, causing heightened unemployment might have a lasting negative impact on human capital and increase the level of equilibrium unemployment.

While discussing the level of the NBP interest rates, the majority of Council members assessed that they should be lowered at the current meeting. However, their opinions differed as to the scale of the decrease. In turn, other Council members were of the opinion that the interest rates should be kept unchanged.

When discussing the NBP interest rate decision, the majority of the Council members pointed out that the incoming data confirmed stronger – than expected in March – economic slowdown in Poland and abroad, and a deeper than anticipated decline in inflation. Given the above and considering the uncertainty about the scale and timing of economic recovery in the euro area and the risk of prolonged period of weak economic activity in Poland, the scale of monetary policy easing should be expanded. Further interest rate cuts would support recovery in the Polish economy, and thus the return of inflation to the NBP target in the medium term. At the same time, some of those Council members assessed that the scale of interest rate cuts at the June meeting should be moderate in order to reduce their negative impact on households' propensity to save in the banking sector. In the context of the decision about the scale of interest rate cuts, those Council members also pointed to the issue of interest rate differential between Poland and major developed economies, which may be important for portfolio capital flows. Some Council members argued, however, that due to time lags in the monetary transmission mechanism, the monetary policy easing should be more decisive and the scale of interest rate cuts in June larger.

Other members of the Council assessed that the coming quarters should be expected to bring a gradual recovery in economic activity and a rise in inflation over the coming year (partly due to statistical base effect), which justified keeping the NBP interest rates unchanged. At the same time, expectations that the Federal Reserve would reduce the scale of quantitative easing could translate into the risk of increased capital outflows from the emerging markets, which – in the opinion of those Council members – also spoke in favour of keeping the NBP interest rates unchanged.

At the same time, in the opinion of the majority of the Council members, given the significant scale of the already implemented cuts in the NBP interest rates, the current cycle of monetary easing was coming closer to an end. The Council members pointed out that a more comprehensive assessment of the medium-term outlook for economic growth and inflation – allowing the discussion on the monetary policy stance in the coming months – would be possible in July, after the Council had got acquainted with the new NBP projection and information about a possible amendment to the budget law.

At the meeting, a motion was submitted to lower the NBP basic interest rates by 0.50 percentage points. The motion did not pass. A motion was also submitted to lower the NBP basic interest rates by 0.25 percentage points. The motion passed. The Council decided to lower the NBP basic interest rates by 0.25 percentage points to the following levels: reference rate to 2.75%, lombard rate to 4.25%, deposit rate to 1.25%, rediscount rate to 3.00%.

Minutes from the Monetary Policy Council Decision Making Meeting Held on 3 July 2013

At its meeting, members of the Monetary Policy Council discussed the current and future monetary policy decisions in the context of macroeconomic developments in Poland and abroad.

While assessing economic conditions abroad, some members of the Council emphasised that although the situation in the United States was improving steadily, even though slowly, (as evidenced, in particular, by growing employment), global economic growth remained weak. In this context, it was pointed out that the euro area recession – which probably persisted in the first half of 2013 – had been accompanied by further downward revision of GDP growth forecasts for this economy and postponement of its recovery. Moreover, some members of the Council pointed to the signs of deteriorating economic climate in some major developing countries, including China, which negatively affected activity in the euro area, and, indirectly, also in Poland. At the same time, members of the Council observed that the second half of 2013 was expected to bring a gradual improvement in the global economic conditions and, in particular, an end to the euro area recession. A few members of the Council assessed that even amidst low GDP growth in the euro area, a relatively fast growth in Polish exports to that economy was possible, especially if economic activity in Germany remained considerably higher than in other euro area countries.

It was pointed out that the recent signals from the Federal Reserve that it might start QE tapering caused a deterioration of the financial market sentiment. The deterioration of the global financial sentiment resulted in some outflow of capital from the emerging markets and a depreciation of their currencies. When assessing the impact of the situation in the international markets on the domestic financial market, some members of the Council emphasized that, as compared to other emerging economies, the change in prices of Polish assets (including an increase of yields on Treasury bonds and zloty depreciation) was limited. In the opinion of those Council members, this might be a sign of favourable perception by investors of the Polish economy fundamentals. Yet, a few Council members assessed that the risk of renewed rise in financial market uncertainty in emerging markets, including Poland, should be taken into account. They also pointed to the recent outflow of portfolio capital from Poland, related to lower relative attractiveness of investing in Polish Treasury bonds.

Referring to the July NBP projection, some members of the Council emphasized that the central paths of GDP and inflation in Poland were slightly lower than those in the March projection; yet, this was mainly visible for the coming quarters. In the medium term, both projections were very similar and pointed to a gradual recovery in economic growth and a slow rise in inflation.

When analysing the current economic situation in Poland, some Council members pointed to the signs of persistently weak domestic conditions, including further fall in industrial output in May 2013 and deepening decline in construction output, as well as continued slow growth in retail sales. Those members of the Council stressed that economic climate indicators did not clearly signal trends in economic activity, and the continued low level of lending to the private sector suggested that the possible strengthening of GDP growth in the coming quarters was likely to be gradual and moderate.

Some members of the Council argued that the significant decrease in the NBP interest rates implemented since November 2012 supported economic recovery, although it cannot completely offset the negative impact of external conditions, fiscal tightening and deteriorating corporate sentiment on domestic GDP growth. According to those members of the Council, economic growth is negatively influenced, in particular, by concerns about a prolonged recession or stagnation in the euro area, discouraging enterprises from investing. In such a situation, if the outlook for demand cease to deteriorate and if enterprises start to expect economic recovery in the coming quarters, lower cost of financing could become a significant factor supporting investment. In the opinion of a few Council members, increasing production capacity utilization and some rise in the total cost estimate value of newly launched investment were among signs of a possible recovery in investment activity in the near future. Low interest rates also encourage consumption, in particular by reducing households' loan repayment burden of zloty denominated loans.

In the opinion of some Council members, in the longer term, domestic demand might also be supported by the launch of the new EU Financial Perspective for 2014-2020. At the same time, the expected recovery in consumption would reduce the contribution of net exports to GDP growth. A few Council members also pointed to the uncertainty about the scale of further fiscal tightening, which might be significantly smaller than currently declared.

When addressing the situation in the labour market, attention was paid to slower decline in employment in the enterprise sector in May 2013, as expressed in annual terms. Yet, it was emphasised that, at that moment, it was difficult to assess the sustainability of the observed changes. At the same time, it was pointed out that unemployment continued at a relatively high level, further supporting low wage growth.

While discussing inflation developments in Poland, attention was drawn to a further decline in inflation in May 2013, down to 0.5%, i.e. a level significantly below the NBP's inflation target of 2.5%. Some members of the Council emphasized that the available forecasts pointed to the possibility of inflation running at a very low level in the coming months. Those Council members argued that also in the coming quarters inflation was likely to continue well below the NBP target. In their opinion, this was evidenced by the deepening decline in producer prices and low wage growth, indicating the

absence of cost pressure in the economy, as well as stagnation in consumption in the 2013 Q1 and only a minor increase in retail sales in 2013 Q2, signalling the lack of demand pressure.

When analysing the July inflation projection, some members of the Council emphasized that such factors as the gradual acceleration of economic growth and the probable persistently negative output gap until the end of the projection horizon would curb price growth in the coming quarters. Similarly, slow growth in unit labour costs and the expected – amidst low global demand – stabilization of commodity prices in the world markets should be conducive to low inflation. That meant, in the opinion of those Council members, that the return of inflation to the target would be gradual. Yet, other members of the Council pointed out that according to the July projection growth in food and energy prices, including oil prices, as well as growth in wages would remain below the level recorded in past, while zloty exchange rate was anticipated to be slightly stronger than currently observed. According to those Council members, should these variables develop more in line with previously observed values, it is likely that the rise in inflation will be faster than indicated by the July projection. In this context, a few members of the Council emphasized that some of the available forecasts, including forecasts by financial analysts, indicate the possibility of inflation returning to the target already in 2014. Those Council members also emphasized that the estimates of the current output gap, as being a non-observable variable, were always uncertain. According to the opinion of those Council members output gap may be less negative than indicated in the July projection.

While discussing monetary policy decisions, some members of the Council assessed that interest rates were at very low levels, and their further reduction might discourage households from holding funds on bank accounts. A few Council members also emphasized that excessive interest rates cuts would create an incentive to accept greater risks, e.g. by undertaking low-productivity projects that eventually may prove unprofitable, and would lead to changes in the structure of bank lending (rising role of mortgage lending amidst reduced lending to companies). According to those Council members, for the above reasons it would be justified to keep the interest rates unchanged.

Most of the Council members assessed, however, that the prolonged economic slowdown and the lack of inflationary pressure, together with the medium term outlook for the economy, as indicated, among others, by the July projection of inflation and GDP – spoke in favour of lowering interest rates at the current meeting. Further monetary policy easing was expected to support economic recovery and the return of inflation to the target.

Most of the Council members agreed that the decision to cut interest rate taken in July should mark the end of the loosening cycle of monetary policy started in November 2012. Members of the Council pointed out that the gradual recovery in demand expected in the second half of the year should translate into a slightly stronger economic growth. However, in their opinion, in view of the persistently negative output gap, inflation was likely to remain at very low levels for several quarters ahead. Yet, according to those members of the Council, economic activity should steadily improve, which – combined with the effects of a significant monetary policy easing – would encourage the return of inflation to the target in the medium term. In the opinion of the majority of the Council members, the current level of interest rates, including the July cut, would support economic recovery and the return of inflation to the target, while, at the same time, it would reduce the risk of adverse effects of excessive interest rates cuts for the financial system and the economy. In addition, those

Council members pointed out that signalling the end of the loosening cycle would contribute to reducing the uncertainty about monetary policy in the future.

A few Council members pointed out, however, that no declarations as to probable future course of monetary policy should be made. They claimed that at present it was difficult to assess the impact of the government's planned changes in public expenditure and revenue on economic activity and inflation in Poland. In the opinion of those Council members, another reason against declaring probable future course of monetary policy was the persistent uncertainty about financial markets' response to the signals of limiting monetary expansion in the United States and to the assessment of the economic and institutional reforms in the euro area.

At the meeting, a motion was submitted to lower the NBP basic interest rates by 0.25 percentage points. The motion passed. The Council decided to lower the NBP basic interest rates by 0.25 percentage points to the following levels: reference rate to 2.50%, lombard rate to 4.00%, deposit rate to 1.00%, rediscount rate to 2.75%.

Minutes from the Monetary Policy Council Decision Making Meeting Held on 4 September 2013

At its meeting, members of the Monetary Policy Council discussed the current and future monetary policy decisions in the context of macroeconomic developments in Poland and abroad.

While referring to economic conditions abroad, Council members drew attention, on the one hand, to a gradual economic recovery in the United States and in the euro area, and, on the other hand, to a certain weakening of economic activity in the major emerging markets. At the same time, according to a few Council members, looking ahead, global economic growth might be supported in particular by recovery in the developed economies, as without institutional reforms, a number of emerging economies would not be able to grow at the rate observed so far. Yet, other Council members argued that GDP growth in such countries as China would be driven by low – comparing to productivity – labour cost for still a long time to come.

With reference to the United States it was emphasized that GDP growth had accelerated in that economy in 2013 Q2, as well as that the incoming monthly data for Q3 pointed to a further improvement in business sentiments and declining unemployment rate, which should support the recovery also in the second half of the year. It was emphasized that forecasts indicated a further slight increase in GDP growth in the American economy in 2014. Some Council members believed, however, that the anticipated phasing out of the Federal Reserve from the quantitative easing programmes might put the US recovery into question as the increase in interest on mortgage loans might curb the real estate market revival.

While discussing economic climate in the euro area it was emphasized that whereas GDP growth in that economy remained negative in annual terms, it grew in quarterly terms in 2013 Q2. It was pointed out that economic growth accelerated in particular in Germany – Poland's main trading partner – and the decline in GDP continued to slow down both in Italy and in Spain. Attention was also paid to the continuous improvement in business climate indicators in the euro area in Q3 signaling further

recovery in the euro area economy. A few Council members also emphasized the decreasing external imbalances in some euro area countries as to a factor having a positive effect on the economic prospects of that economy. Some Council members assessed, however, that the subsequent quarters would most likely see a gradual recovery and GDP growth in the euro area would be markedly lower than in the United States. Those Council members viewed the persistently high debt in both public and private sector, low competitiveness of the economy, high unemployment rate and restrictive lending policies of commercial banks as inhibitors of economic growth in some euro area countries. Moreover, a few Council members assessed that the incomplete restructuring of the banking sector posed additional risk to recovery in some euro area countries.

Some Council members pointed out that the recent hikes in global oil prices might contribute to higher inflation worldwide. Meanwhile, other members of the Council emphasized that recently observed hikes in oil prices reflected political tensions stemming from the civil war in Syria, whereas a slowdown in global demand growth, primarily attributed to lower growth in activity in major emerging economies, had a dampening effect on oil prices. In effect – as argued by those Council members – oil price hikes might prove to be a temporary phenomenon. At the same time, a few Council members pointed out that hikes in commodity prices might be supported by a certain recovery in the advanced economies.

While assessing the global economic situation, Council members also pointed to the fact that the Federal Reserve had announced its intention to limit the scale of quantitative easing. As a result, in the recent months the capital had fled from the emerging economies and most of their currencies had suffered a marked depreciation. It was assessed that the Federal Reserve's withdrawal would most likely remain the source of tensions in the global financial market also in the quarters to come.

While examining the impact of tensions in the global financial markets on the Polish economy, the Council members noted a significant growth in yields on Polish bonds, following their previous considerable decline, as well as change in the share of non-residents holdings. At the same time, a few Council members assessed that there was persistently high – in their opinion – risk of global economic shocks, likely to cause fluctuations in yields on Polish bonds. In that context it was also indicated that most of the government's borrowing requirements for 2013 had already been met. This moderates the impact of higher secondary market bond yields on debt servicing costs. Some Council members also declared that the increase in yields in the secondary market did not have to translate, in its entirety, into a rise in yields in the primary market.

At the same time, it was stressed that mounting tensions in the global financial markets had not contributed to a considerable – as compared to the exchange rates of other currencies of the emerging markets – depreciation of the zloty. In the opinion of the Council members this primarily reflected the lack of significant imbalances in the Polish economy and a positive current account balance.

While addressing the situation in the real sphere of the Polish economy, the Council members pointed out that 2013 Q2 had seen a certain acceleration in GDP growth, this resulting however from higher contribution of net exports to GDP growth, coupled with steeper decline in domestic demand. It was noticed that the recently incoming monthly data indicated the continuation of economic recovery in 2013 Q3. While discussing the economic outlook for Poland, Council members agreed that the

subsequent quarters would see further improvement in business conditions, yet they differed as to scale of the anticipated economic recovery. Some Council members believed that economic activity would be accelerating slowly, and that the nearest quarters would see GDP growth below its potential level. At the same time, a few Council members anticipated that the economic recovery would be relatively rapid, and, in effect, the negative output gap would start to close gradually. The scale of further fiscal tightening was also indicated as a factor increasing uncertainty about GDP growth in 2014.

Members of the Council who expect moderate recovery in the economy, pointed to the deepening decline in investment and stagnation in private consumption in 2013 Q2. Some Council members underlined, however, that decline in investment is typical of the current phase of the business cycle. A few Council members also noted that GDP growth in the coming quarters might be negatively affected by the situation in the banking sector, which, on the one hand, had posted a weaker growth in household deposits, and, on the other hand, rising share of non-performing loans. They also drew attention to decrease in loans to enterprises growth.

Members of the Council expecting somewhat faster GDP growth in the coming quarters, however, pointed to rising retail sales and industrial production and weakening decline in construction in the recent months, as well as signs of a possible rebound in investment over the subsequent quarters (rise in the estimated cost and number of newly started investment). According to those Council members, further economic recovery will be driven by a growth in disposable income of households and improved performance of corporates, including a rise in their liquidity.

During the discussion attention was paid to the signs of labour market stabilization. In particular, it was noted that although employment in the economy in 2013 Q2, was falling in annual terms, the incoming data from the corporate sector showed slight increases in month-over-month employment. A few Council members argued, however, that despite the economic recovery no significant increase in employment should be expected as during the slowdown enterprises strove to limit layoffs. Council members also pointed out that despite a certain wage growth recorded in 2013 Q2, growth in unit labour costs remained stable due to a concurrent growth in labour productivity. Council members emphasized that persistently heightened unemployment rate was a factor limiting wage growth. A few Council members argued, however, that the strikes announced for the coming months might put further upward pressure on wages in the economy.

While discussing inflation developments, Council members emphasized that despite a significant rise in July, inflation continued to run below the lower limit for deviations from the target. At the same time, it was pointed out that the rise in inflation recorded in July resulted from increased waste disposal fees, changes in the seasonal pattern of potato prices as well as higher fuel prices, and therefore did not signal the emergence of demand pressures.

Most of the Council members assessed that inflation was likely to remain below the target in the coming quarters due to the lack of demand pressure. Some Council members pointed to the fact that base effect related to a significant rise in inflation in July 2013 would exert a downward pressure on

inflation in the second half of 2014. Other members believed that even though inflation was likely to remain below the target, the increase in oil prices posted in the recent period and the previously observed moderate depreciation of the zloty could be driving inflation up. A few Council members in turn were of the opinion that as it was possible for GDP growth to rebound faster (above potential output growth) the subsequent quarters might see demand pressure, which would be an additional factor contributing to inflation acceleration.

In the context of the expected rise in inflation, a few Council members emphasized that higher inflation supported lower real interest rates. Other Council members, however, pointed out that the medium-term inflation forecasts of economists and bank analysts – despite fluctuations in inflation – remained relatively stable, which currently stabilized the ex-ante real interest rate.

Council members agreed that interest rates should be kept unchanged at the present meeting, and the current and expected economic situation spoke in favour of keeping interest rates unchanged until the end of 2013. In the opinion of the Council, further ahead the level of interest rates would depend on the scale and structure of recovery and the resulting inflationary pressure.

The Council decided to keep NBP's interest rates unchanged: the reference rate at 2.50%, the lombard rate at 4.00%, the deposit rate at 1.00% and the rediscount rate at 2.75%.

Minutes from the Monetary Policy Council Decision Making Meeting Held on 2 October 2013

At its meeting, members of the Monetary Policy Council discussed the current and future monetary policy decisions in the context of macroeconomic developments in Poland and abroad.

Referring to external conditions, it was noted that the global economic growth is moderate and there are no clear signals – neither from developed nor from developing economies – pointing to its significant acceleration in the coming quarters.

Members of the Council discussed in particular the situation in the United States, where before the beginning of a fiscal year, the U.S. Congress did not adopt the budget law. According to some members of the Council this may negatively affect US economic activity, although other members of the Council assessed that the impact will probably be limited. Yet – according to the Council – difficulties with the adoption of the budget in the United States may have a negative impact on negotiations about increasing the US debt limit, and so on sentiments in the global financial markets. At the same time, it was pointed out that the fiscal situation can be a factor discouraging the Federal Reserve from QE tapering.

While analyzing the situation in the euro area, some Council members pointed out that the situation in that economy is a bit better than before. They emphasized in particular that the slightly positive – for the first time in six quarters – euro area GDP growth in 2013 Q2 was supported by an increase in external demand (especially from the United States and Japan), a relatively stable situation on the financial markets of the euro area and an improved sentiment of both consumers and producers. It was noted that the high level of PMI and an increase of most of other economic indicators signal a high probability of euro area GDP growth remaining positive in 2013 Q3. At the same time, members of the Council pointed out that euro area GDP growth in 2013 Q2 was also related to one-off factors.

Moreover, a few Council members argued that the lack of prospects for a considerable revival in economic growth in major emerging economies may have a negative impact on economic activity in Europe.

Some Council members argued that, given moderate recovery in the global economic growth, pressure on commodity prices will probably remain low. A few Council members noted that also the end of a period of high prices in the long-term commodity cycle may contribute to lower commodity prices in the coming years. Other Council members, however, pointed to a recent rise in enterprises' concerns about the future path of commodity prices. If these concerns prove to be justified, i.e., if commodity prices actually increase, the growth – due to its strong impact on domestic prices – may have significantly increased inflation in Poland.

While analysing business conditions in Poland, some Council members noted that revival of economic growth is more gradual than in 2010. To a significant extent this is related to a persistently slower – as compared to the period prior to the global financial crisis – GDP growth abroad. According to a few Council members, economic activity might also be hampered by increased unemployment. In their view, unemployment – especially among young and low-skilled employees – is additionally raised by rising minimum wages in Poland, which exceeds average wage growth. Those Council member assessed, moreover, that both the persistently lower growth abroad and lower employment might negatively affect potential output growth in the medium term. Other Council members indicated, however, that the minimum wage in Poland was relatively low as compared to other EU countries and, in their opinion, it has no considerable impact on the levels of employment and unemployment in Poland.

While discussing the current business conditions, it was noted that some data on domestic economic activity proved worse than anticipated. In particular, the growth of industrial output and of construction output in August 2013 showed some deceleration of positive tendencies observed in the previous period – i.e. recently seen acceleration of industrial output was slower and decelerating fall in construction output was again somewhat more negative. At the same time it was emphasized that annual GDP growth would most likely be higher in Q3 as compared to Q2. In particular, favourable data on retail sales and improvement in leading business indicators, including a relatively high PMI, signalled steadily accelerating growth. Attention was also drawn to the signs of gradual improvement in the labour market. August saw a slight decline in the registered unemployment rate (in seasonal adjusted terms) and a further growth in employment in the corporate sector (in monthly terms). Moreover, a few Council members noted that activity is reviving in numerous sectors of the economy, which, in their opinion, reflects a broad-based and most likely robust economic recovery.

Some members of the Council argued, that despite gradually accelerating activity, output gap would continue to be negative in the subsequent quarters, hence, there was no substantial risk to price stability on the part of domestic factors. Those members – seeing also low risk of considerable increase in external inflationary pressures – expected that inflation would run below the target also in 2014. Members of the Council indicated that in line with forecast covering the next 4 quarters, inflation was

expected to remain below the target. Also core inflation in a one year-horizon was about to run at a relatively low level, i.e. below the multi-year average.

Other Council members, however, pointed out that currently the potential output growth might be lower than implied by the available estimates, and thus, the negative output gap may get closed already in the near future. Furthermore – they believe – given the risk of inflation rising due to factors linked to food and energy prices, core inflation should run well below the currently forecasted values in order to expect that CPI inflation would remain within the tolerance band of deviations from the inflation target. In this context those Council members noted that inflationary expectations of enterprises recently increased somewhat, which was related in particular to their concerns about renewed rise in global commodity prices.

While analysing developments in monetary aggregates, a few Council members pointed to the change in term structure of households' assets. Primarily they stressed rising value of cash in circulation.

Council members agreed that interest rates should be kept unchanged at the present meeting, and the current and expected economic situation spoke in favour of keeping interest rates unchanged at least until the end of 2013. In the opinion of the Council, further ahead the level of interest rates would depend on the scale and structure of recovery and the resulting inflationary pressure. A few Council members indicated that the future monetary policy should also take account of the expected fiscal policy.

The Council decided to keep NBP's interest rates unchanged: the reference rate at 2.50%, the lombard rate at 4.00%, the deposit rate at 1.00%, and the rediscount rate at 2.75%.

Minutes from the Monetary Policy Council Decision Making Meeting Held on 6 November 2013

At its meeting, members of the Monetary Policy Council discussed the current and future monetary policy decisions in the context of the macroeconomic developments in Poland and abroad, and the November projection of inflation and GDP.

While referring to economic activity abroad, it was indicated that in 2013 Q3 global economic conditions had improved somewhat. It was also pointed out that economic developments were diversified globally. In the emerging markets, economic growth has stayed low as for these economies. At the same time, growth is gradually accelerating in some developed countries, although downside risks to economic activity in the coming quarters persist.

While discussing developments in the United States, it was highlighted that the recovery was building up there, most notably in the manufacturing industry and in the labour market. At the same time, it was noted that economic data for September 2013 had been slightly weaker than expected. At the same time, risk of weakening economic activity prevailed due to uncertainty about future fiscal policy in the country and the temporary suspension of the activities of the federal government in October.

While discussing the economic developments in the euro area, it was pointed out that quarterly GDP growth in 2013 Q3 had probably remained positive. However, a few Council members noted that the economic recovery might not be sustainable in some euro area countries due to the persistence of risks in the banking sector in these countries. During the discussion the opinion was also expressed that –

amid declining inflation in the euro area – the likelihood of further monetary policy easing by the European Central Bank had risen.

It was also noted that GDP growth in China had accelerated slightly in 2013 Q3. At the same time, it was highlighted that GDP growth had remained relatively low as for this country. A few Council members indicated that the persistently weak activity in major emerging market economies was due to both relatively weak economic growth in developed countries as well as relatively low domestic demand growth in emerging market economies.

While analysing developments in financial markets, some Council members indicated that the increase in risk aversion in 2013 Q2 and Q3 contributed – as in the case of other emerging economies – to a decline in non-resident holdings of Polish sovereign bonds and a depreciation of the zloty. It was pointed out, however, that the Polish currency had depreciated less than many emerging market currencies. Furthermore, it was emphasized that since August the zloty had appreciated. It was observed that relative stability of the zloty might have been, in particular, due to a reduction in Poland's external imbalance in recent quarters. At the same time, the gradual decline in the non-resident holdings of Polish sovereign bonds has been reducing the risks associated with debt financing by foreign capital.

While discussing the current economic developments in Poland, Council members pointed out that the data on domestic economic activity released since the previous meeting had shown further recovery, particularly in the industrial sector. It was however highlighted that some of the data had turned out to be weaker than anticipated, and the acceleration in output growth had so far lagged behind the rise in leading indicators. It was also pointed out that the main factor behind increase in activity had been external demand growth, while domestic demand growth had stayed limited.

Some Council members pointed to the ongoing stagnation in the labour market, including the persistently elevated unemployment. This has not, so far, been mitigated by the slight increase in employment observed in the corporate sector in recent months. Stagnation in the labour market leads to weak growth in wages, which reduces the cost and demand pressures in the economy.

Referring to the economic outlook, Council members pointed out that – in the light of the November projection – GDP growth was likely to continue to accelerate. Nonetheless, economic recovery will be still moderate, and thus the output gap will stay negative in the entire projection horizon. Some Council members pointed out that acceleration in GDP growth in the coming quarters should be driven by a recovery in domestic demand, especially investment, which would be supported by the inflow of EU funds under the new budget perspective. A few Council members pointed out, however, that slow growth in corporate lending might curb private sector investment growth.

Referring to the inflation projection, Council members emphasized that the projected inflation returned to the band for deviations from the inflation target in the projection horizon, but posed no threat to meeting inflation target in the medium term. Apart from weak demand pressure, low inflation – in light of the projection – should also be supported by weak pressure on global commodity

prices. A few Council members pointed out that since the zloty might appreciate amid improvement in the domestic economic conditions, substitution of domestic goods with imported ones might prove to be another factor conducive to lower inflation.

According to a few Council members, inflation may rise above the projection, should demand pressure prove stronger than assumed in the projection, or should negative shocks occur in the commodity markets. Moreover, according to these members, the temporary inflation increase anticipated in the projection in 2014 Q2 could – if translated into higher inflation expectations – result in some reduction in the real interest rate. It was also noted that an upside risk to global inflation continued to be posed by highly expansionary monetary policy of the major central banks.

Council members agreed that interest rates should remain unchanged at the current meeting. It was pointed out that the reduction in interest rates in the first half of 2013 and their stabilization in the second half of the year supported the recovery of the domestic economy, return of inflation to the target and stabilisation in the financial markets.

The Council assessed that in spite of the expected acceleration of economic growth, GDP growth in the coming years (i.e. in the projection horizon) would remain moderate, and the risk of a substantial increase in domestic inflationary pressure, which would pose a threat to meeting the inflation target in the medium term, was limited. This assessment was also supported by the November projection of inflation and GDP. Therefore, the Council decided that it would be justified to maintain interest rates at current levels at least until the end of the first half of 2014.

The Council kept the NBP's interest rates unchanged: the reference rate at 2.50%, the lombard rate at 4.00%, the deposit rate at 1.00% and the rediscount rate to 2.75%.

Minutes from the Monetary Policy Council Decision Making Meeting Held on 4 December 2013

At its meeting, members of the Monetary Policy Council discussed the current and future monetary policy decisions in the context of macroeconomic developments in Poland and abroad.

While referring to economic activity abroad, the members of the Council pointed to global economic growth remaining moderate (due to persistently modest recovery in developed economies and historically low rates of GDP growth in emerging countries).

In particular, it was pointed out that economic conditions in the United States had improved, which was, however, partly driven by still highly expansionary monetary policy in that country. Some Council members emphasized that given the likelihood of the Federal Reserve starting QE tapering, the sustainability of recovery in the US economy was not certain. At the same time, these Council members were of the opinion that QE tapering might be accompanied by an easing of other parameters of the Fed's monetary policy, including changes to parameters of forward guidance. A few Council members pointed to the fact that QE policy had changed financial markets' response to macroeconomic data, and its withdrawal could trigger additional volatility in the financial markets.

While referring to the euro area, it was emphasised that due to the persistently high unemployment, the ongoing deleveraging process and uncertainty over the outlook for the euro area economy, GDP growth in 2013 Q3 was only slightly above zero. In the opinion of the Council, one could hardly

expect its tangible acceleration in subsequent quarters. Some Council members indicated, however, that fiscal tightening had been scaled back in many euro area countries, which should have a positive impact on their economic growth in the short run. It was also pointed out that the November ECB decision to lower the main interest rate and the possibility of further easing of monetary policy in the euro area may support demand growth in that economy.

While analysing situation in the developing countries, some Council members indicated that growth outlook for major emerging economies had recently been revised downwards. In this context, a few Council members emphasised that the weakening GDP growth in those countries could be a long-lasting phenomenon, related to the so called middle-income trap. Moreover, in the opinion of those Council members, cyclical factors (i.e. moderate scale of recovery in developed countries) also dimmed the prospects of a marked GDP acceleration in emerging economies (in particular in those that are commodity exporters).

While discussing inflationary processes, it was indicated that global inflation remained low, which was supported by moderate economic activity and a fall in commodity prices. Some Council members pointed to the recently rising risk of deflation in some countries. In particular, it was probably the risk of inflation falling below zero that had made the ECB lower its main interest rate, and led the Czech National Bank to introduce an asymmetric exchange rate target.

At the same time, a few Council members assessed that the unprecedented scale of quantitative easing carried out by major central banks might, in the long run, fuel concerns about a substantial rise in inflation across the world. Other Council members indicated that the additional liquidity provided to the financial system by major central banks had not, as yet, translated into increased money supply. Therefore, no inflationary pressures were observed in the consumer goods market. In turn, a marked increase in asset prices amidst persisting moderate global economic growth proves, in the opinion of these Council members, that additional liquidity had been used to invest in financial assets.

While referring to domestic economic activity, Council members noted that GDP data had confirmed the continuation of a gradual recovery in 2013 Q3. At the same time, however, some Council members emphasized that although domestic demand had picked up – after a few quarters of a decline – its rise was small and net exports continued to be the main driver of growth. In this context, a few Council members pointed out that given the low growth in the external environment of the Polish economy and the persisting risk of deterioration in economic conditions abroad, the strength of further economic recovery in Poland was uncertain. At the same time, it was noted that there was some slowdown in industrial output and retail sales growth in October, which was however accompanied by further improvement in economic climate indicators (including PMI in manufacturing) and a smaller decline in construction and assembly output.

Referring to the situation in the labour market, it was pointed out that wage growth had accelerated slightly, which could support further rebound in consumption. At the same time, the still elevated unemployment rate showed that no loosening of wage discipline should be expected. In this context,

it was emphasized that the growth of unit labour cost in the economy had remained low for the last few years.

While assessing the situation in the credit market, some Council members emphasized that easing of consumer loan policy of financial institutions, accompanied by an improvement in consumer sentiment, had contributed to a marked rise in these loans over the recent months (which supported recovery in consumer demand). The rise in consumer loans combined with a stable increase in mortgage loans, translated into gradual acceleration of lending to households. In turn, lending growth to enterprises remained low, in particular in the segment of investment loans. This may point to further sluggish growth in investment demand of corporations, above all under capacity underutilization in the economy. While discussing the developments in the banking sector, it was indicated that the growth in household deposits continued to weaken.

Referring to inflation, Council members pointed out that in October 2013 CPI had decreased and inflation had remained markedly below the target. In addition, it was indicated that core inflation remained low, producer prices continued to decline, and inflation forecasts of financial sector analysts decreased. Some Council members emphasized that available forecasts pointed to a low risk of inflation exceeding the target in 2014. However, a few Council members noted the fact that core inflation ran at a level that in the past did not guarantee CPI inflation remaining within the tolerance band of deviations from the target.

In the opinion of the Council, NBP interest rates should remain unchanged at the current meeting. It was emphasized that the reduction in interest rates in the first half of 2013 and their stabilisation in subsequent quarters supported the recovery of the domestic economy, a return of inflation to the target and stabilisation in the financial markets.

The Council maintains its assessment that gradual economic recovery is likely to continue in the coming quarters, however, inflationary pressures will remain subdued. Therefore, the Council confirmed that it would be justified to maintain interest rates at current levels at least until the end of the first half of 2014.

The Council kept NBP's interest rates unchanged: the reference rate at 2.50%, the lombard rate at 4.00%, the deposit rate at 1.00% and the rediscount rate at 2.75%.

Appendix 7. Voting records of the Monetary Policy Council members on motions and resolutions

Voting records of Monetary Policy Council Members on motions and resolutions in 2013 are presented below:

▪ **Date:** 9 January 2013

Subject matter of motion or resolution:

Motion to lower the NBP interest rates by 1.25 percentage points.

MPC decision:

Motion did not pass.

Voting of the MPC members:

For: A. Bratkowski

Against: M. Belka

E. Chojna-Duch

A. Glapiński

J. Hausner

A. Kaźmierczak

A. Rzońca

J. Winiecki

A. Zielińska-Głębocka

Z. Gilowska was absent.

▪ **Date:** 9 January 2013

Subject matter of motion or resolution:

Motion to lower the NBP interest rates by 0.5 percentage points.

MPC decision:

Motion did not pass.

Voting of the MPC members:

For: A. Bratkowski
E. Chojna-Duch

Against: M. Belka
A. Glapiński
J. Hausner
A. Kaźmierczak
A. Rzońca
J. Winiecki
A. Zielińska-Głębocka

Z. Gilowska was absent.

▪ **Date:** 9 January 2013

Subject matter of motion or resolution:

Resolution no 1/2013 on reference rate, refinancing credit rate, fixed-term deposit rate and rediscount rate at the NBP.

MPC decision:

The MPC lowered NBP interest rates by 0.25 percentage points.

Voting of the MPC members:

For: M. Belka
A. Bratkowski
E. Chojna-Duch
A. Glapiński
J. Hausner
A. Kaźmierczak
A. Rzońca
J. Winiecki
A. Zielińska-Głębocka

Against:

Z. Gilowska was absent.

▪ **Date:** 6 February 2013

Subject matter of motion or resolution:

Motion to lower the NBP interest rates by 1.0 percentage point.

MPC decision:

Motion did not pass.

Voting of the MPC members:

For: A. Bratkowski
E. Chojna-Duch

Against: M. Belka
A. Glapiński
J. Hausner
A. Kaźmierczak
A. Rzońca
J. Winiecki
A. Zielińska-Głębocka

Z. Gilowska was absent.

▪ **Date:** 6 February 2013

Subject matter of motion or resolution:

Motion to lower the NBP interest rates by 0.50 percentage points.

MPC decision:

Motion did not pass.

Voting of the MPC members:

For: A. Bratkowski
E. Chojna-Duch
A. Zielińska-Głębocka

Against: M. Belka
A. Glapiński
J. Hausner
A. Kaźmierczak
A. Rzońca
J. Winiecki

Z. Gilowska as absent.

▪ **Date:** 6 February 2013

Subject matter of motion or resolution:

Resolution no 2/2013 on reference rate, refinancing credit rate, deposit rate and rediscount rate at the NBP.

MPC decision:

The MPC lowered the NBP interest rates by 0.25 percentage points.

Voting of the MPC members:

For: M. Belka

A. Bratkowski

E. Chojna-Duch

A. Glapiński

J. Hausner

A. Kaźmierczak

A. Zielińska-Głębocka

Z. Gilowska was absent.

Against: A. Rzońca

J. Winiecki

▪ **Date:** 6 March 2013

Subject matter of motion or resolution:

Resolution no 3/2013 on reference rate, refinancing credit rate, deposit rate and rediscount rate at the NBP.

MPC decision:

The MPC lowered the NBP interest rates by 0.50 percentage points.

Voting of the MPC members:

For: M. Belka

A. Bratkowski

E. Chojna-Duch

J. Hausner

A. Zielińska-Głębocka

Against: Z. Gilowska

A. Glapiński

A. Kaźmierczak

A. Rzońca

J. Winiecki

▪ **Date:** 6 March 2013

Subject matter of motion or resolution:

Motion to lower the NBP interest rates by 0.25 percentage points.

Voting of the MPC members:

Motion was not voted.

▪ **Date:** 9 April 2013

Subject matter of motion or resolution:

Resolution No. 4/2013 on approving the Annual Financial Report of the National Bank of Poland prepared as of 31 December 2012.

Voting of the MPC members:

For: M. Belka

A. Bratkowski

E. Chojna-Duch

A. Glapiński

J. Hausner

A. Kaźmierczak

A. Rzońca

J. Winiecki

A. Zielińska-Głębocka

Z. Gilowska was absent.

Against:

▪ **Date:** 8 May 2013

Subject matter of motion or resolution:

Resolution No. 5/2013 on approving the report on monetary policy implementation in 2012.

Voting of the MPC members:

For: M. Belka

A. Bratkowski

E. Chojna-Duch

Z. Gilowska

A. Glapiński

J. Hausner

A. Kaźmierczak

A. Rzońca

J. Winiecki

A. Zielińska-Głębocka

Against:

▪ **Date:** 8 May 2013

Subject matter of motion or resolution:

Resolution No. 6/2013 on the evaluation of the activities of the NBP Management Board as regards the implementation of the monetary policy guidelines for the year 2012.

Voting of the MPC members:

For: M. Belka

A. Bratkowski
E. Chojna-Duch

Z. Gilowska

A. Glapiński

J. Hausner

A. Kaźmierczak

A. Rzońca

J. Winiecki

A. Zielińska-Głębocka

Against:

▪ **Date:** 8 May 2013

Subject matter of motion or resolution:

Motion to lower the NBP interest rates by 0.5 percentage points.

MPC decision:

Motion did not pass.

Voting of the MPC members:

For: A. Bratkowski

A. Zielińska-Głębocka

Against: M. Belka

E. Chojna-Duch

Z. Gilowska

A. Glapiński

J. Hausner

A. Kaźmierczak

A. Rzońca

J. Winiecki

▪ **Date:** 8 May 2013

Subject matter of motion or resolution:

Resolution no 7/2013 on reference rate, refinancing credit rate, deposit rate and rediscount rate at the NBP.

MPC decision:

The MPC lowered the NBP interest rates by 0.25 percentage points.

Voting of the MPC members:

For: M. Belka

A. Bratkowski
E. Chojna-Duch

J. Hausner

A. Zielińska-Głębocka

Against: Z. Gilowska

A. Glapiński

A. Kaźmierczak

A. Rzońca

J. Winiecki

▪ **Date:** 21 May 2013

Subject matter of motion or resolution:

Resolution no 8/2013 on approving the report on the operations of the National Bank of Poland in 2012.

Voting of the MPC members:

For: A. Bratkowski

E. Chojna-Duch

Z. Gilowska

A. Glapiński

J. Hausner

A. Kaźmierczak

A. Rzońca

J. Winiecki

A. Zielińska-Głębocka

M. Belka was absent.

Against:

▪ **Date:** 5 June 2013

Subject matter of motion or resolution:

Motion to lower the NBP interest rates by 0.50 percentage points.

MPC decision:

Motion did not pass.

Voting of the MPC members:

For: A. Bratkowski

A. Zielińska-Głębocka

Against: M. Belka

E. Chojna-Duch

Z. Gilowska

A. Glapiński

J. Hausner

A. Kaźmierczak

A. Rzońca

J. Winiecki

▪ **Date:** 5 June 2013

Subject matter of motion or resolution:

Resolution No. 9/2013 on reference rate, refinancing credit rate, deposit rate and rediscount rate at the NBP.

MPC decision:

The MPC lowered NBP interest rates by 0.25 percentage points.

Voting of the MPC members:

For: M. Belka

A. Bratkowski

E. Chojna-Duch

J. Hausner

A. Zielińska-Głębocka

Against: Z. Gilowska

A. Glapiński

A. Kaźmierczak

A. Rzońca

J. Winiecki

▪ **Date:** 5 June 2013

Subject matter of motion or resolution:

Resolution No. 10/2013 on interest rates on loans granted to the Bank Guarantee Fund, National Association of Cooperative Savings and Credit Unions and cooperative savings and credit unions by the NBP.

Voting of the MPC members:

For: M. Belka

A. Bratkowski

E. Chojna-Duch

Z. Gilowska

A. Glapiński

J. Hausner

A. Kaźmierczak

J. Winiecki

A. Zielińska-Głębocka

Against: A. Rzońca

▪ **Date:** 2 July 2013

Subject matter of motion or resolution:

Resolution No. 1/DOR/2013 on the appointment of a registered auditor for the Annual Financial Statements of the National Bank of Poland for years 2013 and 2014.

Voting of the MPC members:

For: M. Belka

A. Bratkowski

E. Chojna-Duch

A. Glapiński

J. Hausner

A. Kaźmierczak

A. Rzońca

A. Zielińska-Głębocka

Z. Gilowska was absent.

J. Winiecki did not vote.

Against:

▪ **Date:** 3 July 2013

Subject matter of motion or resolution:

Resolution No. 11/2013 on reference rate, refinancing credit rate, deposit rate and rediscount rate at the NBP.

MPC decision:

The MPC lowered NBP interest rates by 0.25 percentage points.

Voting of the MPC members:

For: M. Belka

A. Bratkowski

E. Chojna-Duch

J. Hausner

A. Zielińska-Głębocka

Against: Z. Gilowska

A. Glapiński

A. Kaźmierczak

A. Rzońca

J. Winiecki

▪ **Date:** 3 September 2013

Subject matter of motion or resolution:

Resolution No. 12/2013 on adopting *Monetary Policy Guidelines for 2014*.

Voting of the MPC members:

For: M. Belka

A. Bratkowski

E. Chojna-Duch

A. Glapiński

J. Hausner

A. Kaźmierczak

A. Rzońca

J. Winiecki

A. Zielińska-Głębocka

Z. Gilowska was absent.

Against:

▪ **Date:** 17 September 2013

Subject matter of motion or resolution:

Resolution No. 13/2013 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: M. Belka

A. Bratkowski

E. Chojna-Duch

A. Glapiński

J. Hausner

A. Rzońca

J. Winiecki

A. Zielińska-Głębocka

Z. Gilowska was absent.

Against: A. Kaźmierczak

▪ **Date:** 2 October 2013

Subject matter of motion or resolution:

Resolution No. 14/2013 amending the resolution on the regulations governing the Monetary Policy Council.

Voting of the MPC members:

For: M. Belka

A. Bratkowski

E. Chojna-Duch

A. Glapiński

J. Hausner

A. Kaźmierczak

A. Rzońca

J. Winiecki

A. Zielińska-Głębocka

Z. Gilowska was absent.

Against:

▪ **Date:** 5 November 2013

Subject matter of motion or resolution:

Resolution No. 15/2013 on the required reserve ratios for banks, cooperative savings and credit unions and the National Association of Cooperative Savings and Credit Unions and the remuneration of required reserves.

Voting of the MPC members:

For: M. Belka

A. Bratkowski

E. Chojna-Duch

J. Hausner

A. Kaźmierczak

A. Rzońca

J. Winiecki

A. Zielińska-Głębocka

A. Glapiński was absent.

Against:

▪ **Date:** 3 December 2013

Subject matter of motion or resolution:

Resolution No. 16/2013 on approving the Financial Plan of the National Bank of Poland for 2014.

Voting of the MPC members:

For: M. Belka

A. Bratkowski

E. Chojna-Duch

A. Glapiński

J. Hausner

A. Kaźmierczak

A. Rzońca

J. Winiecki

A. Zielińska-Głębocka

Against:

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