NBP Narodowy Bank Polski

Monetary Policy Council

Report on monetary policy implementation in 2015

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Warsaw, May 2016

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 in the year the *Report* encompasses.

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 and that they are taken under uncertainty about future macroeconomic developments. 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 economic conditions and domestic inflation developments in the short, and sometimes in the medium term.

The *Report on monetary policy implementation in 2015* is a translation of the publication of Narodowy Bank Polski entitled *Sprawozdanie z wykonania założeń polityki pieniężnej na rok 2015*. In case of discrepancies, the Polish version prevails.

Content

1. Monetary policy strategy in 2015

In 2015, the Monetary Policy Council – in line with *Monetary Policy Guidelines for 2015* – strived to maintain price stability by pursuing monetary policy, which was simultaneously conducive to maintaining sustainable economic growth and stable financial system. In this way, the Council implemented the basic objectives of Narodowy Bank Polski set out in the Constitution of the Republic of Poland and the Act on Narodowy Bank Polski. According to Article 227 Section 1 of the Constitution of the Republic of Poland, "Narodowy Bank Polski shall be responsible for the value of Polish currency". The Act on Narodowy Bank Polski of 29 August 1997 states in Article 3 Section 1 that "The basic objective of the activity of NBP shall be to maintain price stability, while supporting the economic policy of the Government, insofar as this does not constrain the pursuit of the basic objective of NBP."

Price stability is nowadays construed as low, yet positive inflation, i.e. one that does not adversely affect the decisions of economic agents, including investment and savings decisions. Threats to price stability include both excessive inflation and persistent deflation, especially if accompanied by slow economic growth or stagnation.

The Monetary Policy Council strives to ensure price stability within the inflation targeting framework. Since 2004, the Council has pursued a medium-term inflation target of 2.5%, with a symmetrical band for deviations of ±1 percentage point. Over this period, the average annual CPI in Poland has been 2.3%, i.e. close to the NBP target; yet in some years inflation strayed outside the band. At the same time, the pace of economic growth has been relatively stable, and no major macroeconomic imbalances have arisen in the economy. This shows inflation targeting to be an effective strategy for ensuring long-term price stability as well as supporting sustainable economic growth.

Taking into consideration the medium-term character of the inflation target, the Council accepts temporary deviations of inflation from the target, related to the shocks affecting the economy. The monetary policy response to shocks and the resulting deviations of inflation from the target depend on the underlying cause and character of these shocks, as well as the assessment of how persistent their effects would be, including their impact on price developments and inflation expectations. The Council flexibly determines the time necessary for inflation to return to the target, depending on the character of the shock, its persistence and the overall assessment of risks posed by the shock to both medium-term price stability and broadly understood longer-term macroeconomic stability.

The experience of the global financial crisis has shown that stabilising inflation at low levels is a very important, yet insufficient condition to maintain the economy in balance. To ensure macroeconomic stability, monetary policy has to be pursued in a manner which – while striving to stabilise inflation at a low level – simultaneously contains the risk of imbalances building up in the economy, including, in particular, in the financial system. Hence, the Council conducts monetary policy in such a way as to support the stability of the financial system, which is necessary to ensure price stability in the longer term and which enables the smooth functioning of the monetary policy transmission mechanism.

Therefore, in its decisions the Council takes into account the prices of assets, especially those of real estate, and lending growth rate. In order to support the stability of the financial system it may be necessary – particularly amidst severe external shocks – to lengthen the horizon of achieving the inflation target.

The Council implements inflation targeting under the floating exchange rate regime. However, the floating exchange rate regime does not rule out foreign exchange interventions, when these prove necessary to ensure macroeconomic and financial stability of the country, which is conducive to meeting the inflation target in the medium-term.

2. Monetary policy and macroeconomic developments in 2015

In 2015, economic growth in Poland was stable at rates exceeding the pace observed in the previous year. This was accompanied by a marked improvement in labour market conditions. As a result, employment increased significantly while unemployment fell, amidst a steady rise in wages and consumer demand. At the same time, financial standing of enterprises was sound, which – together with high capacity utilization – supported investment growth. Under such conditions, lending rose faster than in many other countries.

Despite relatively favourable economic conditions, consumer price growth in Poland – like in many other countries – slowed down considerably and was negative throughout 2015. Declining prices raised the risk of inflation remaining below the target in the medium term. For this reason, in March 2015 the Monetary Policy Council decreased the NBP interest rates by 0.5 percentage points, including the reference rate to 1.5%. As a result, the NBP interest rates reached the lowest levels on record. In the following months, the Council was keeping the NBP rates unchanged.

In 2015, the Council strived to maintain price stability within the flexible inflation targeting framework, as indicated in the *Monetary Policy Guidelines.* Consequently, the Council took into consideration, on the one hand, the risk associated with inflation running below the target over a prolonged period of time, and, on the other, the external character of the shocks causing inflation to deviate from the target. In particular, the Council considered that deflation was driven by a sharp and unexpected decline in global commodity prices, which – at the same time – had a beneficial impact on economic standing of most agents in Poland. Moreover, the Council took into account that deflation was accompanied by stable economic growth and marked improvement in labour market conditions. In addition, while striving to ensure price stability in the longer term, the Council tried to limit the risk of macroeconomic imbalances building up in the economy. In particular, in its decisions the Council considered that too low interest rates might, amid relatively robust economic activity, lead to excessive growth in lending and asset prices.

Below, the basic rationale behind the Monetary Policy Council decisions in the following quarters of 2015 is presented.

Data released in 2015 Q1 pointed to further moderate global economic activity, with economic conditions varying across countries. In the euro area, i.e. Poland's main trading partner, GDP growth remained sluggish, and incoming information signalled only a slow recovery in the subsequent quarters. In the United States, growth was markedly higher than in the euro area, and the outlook for economic conditions was strong. In turn, in major emerging economies, including China, GDP growth was relatively weak following the slowdown seen in the previous quarters. Energy commodity prices declined in global markets, while prices of agricultural commodities remained relatively low after the fall recorded in the previous year. The decline in commodity prices, amid moderate global economic activity, dragged on price growth in many countries. In particular, in the euro area and most countries of Central and Eastern Europe, annual price growth turned negative.

Major central banks continued to pursue a highly expansionary monetary policy, keeping interest rates at close to zero. The European Central Bank (ECB) increased considerably its asset purchases, notably by extending its scope to include Treasury securities of euro area countries. The Federal Reserve (Fed), in turn, signalled a possibility of an interest rate rise in 2015. The divergence between the monetary policies of the ECB and the Fed caused the US dollar to appreciate against the euro. The flagging sentiment in global financial markets worked in the same direction, also enhancing the upward pressure on the exchange rates of other currencies perceived as safe havens, particularly the Swiss franc. This inclined the Swiss National Bank to abandon the exchange rate floor against the euro and decrease interest rates below zero. As a consequence, the franc appreciated abruptly and sharply against the euro and many other currencies, including the zloty.

In Poland, preliminary national accounts data for 2014 indicated that GDP growth decelerated slightly in 2014 Q4, while still running above 3%. GDP growth continued to be driven primarily by rising domestic demand. Overall investment growth remained high and consumer demand growth was stable. Increasing consumption was supported by rising employment and lending. Despite this, uncertainty about future growth in Poland rose temporarily. Uncertainty factors included, on the one hand, the deteriorating outlook for developing economies and, on the other hand, a temporary hike in volatility in financial markets, including a considerable depreciation of the zloty against the Swiss franc, augmenting the amount of debt owed by households with liabilities in this currency.

Amid the merely moderate wage growth and the absence of demand pressure in the economy, the fall in global commodity prices deepened both CPI and PPI deflation. At the same time, corporate and household inflation expectations remained very low. As a result, the expected period of price growth remaining below the target was significantly extended, as indicated also in the March NBP projection.

Against this background, in particular the longer period of expected deflation and a markedly higher risk of inflation remaining below the target in the medium term, in March 2015 the Council – as mentioned above – decided to lower interest rates by 0.5 percentage points. When deciding on the scale of the interest rate decrease, the Council took into account, on the one hand, the risk of the extended period of inflation remaining below the target, and on the other hand, the risk of imbalances building up in the economy under low interest rates – mainly the risk of excessive growth in lending and asset prices. When lowering interest rates, the Council signalled that in the following quarters the NBP interest rate would probably remain stable. This signal was aimed at curbing uncertainty about the future monetary policy.

In 2015 Q2, global economic activity remained moderate, with the outlook for GDP growth improving in the euro area, despite mounting concerns about Greece's insolvency at the end of the quarter. At the same time, data from the United States pointed to a possible slowdown in this economy. Most major emerging economies saw economic growth weakening. Following a sharp and prolonged decline, global oil prices rebounded in 2015 Q2. This mitigated disinflation in many countries, supporting, in particular, price growth in the euro area. That notwithstanding, global inflation was very low, and in many European countries – negative. Against this background, major central banks kept their interest rates close to zero, and the ECB continued its asset purchase programme. At the same time, due to a deterioration in the outlook for economic growth in the United States, the expected timing of the first interest rate increase by the Fed was postponed. As a result, amidst improving economic conditions in the euro area in 2015 Q2, the appreciation of the dollar against the euro came to a halt, despite rising concerns over economic situation in Greece.

Domestic data revealed a slight acceleration of GDP growth in 2015 Q1. Output growth was supported by a pick-up in export growth related to stronger economic conditions in the euro area. Domestic demand continued to be a major driver of GDP growth in 2015 Q1. This involved, in particular, consumption and investment growth underpinned by improving labour market conditions, sound financial standing of enterprises, high capacity utilisation and a rise in lending to private sector. Since the output gap remained negative, though gradually narrowing, there was no demand pressure in the Polish economy. Similarly, no cost pressure was observed, owing to low commodity prices and a merely moderate nominal wage growth. As a result, annual consumer price growth remained negative, although – along with rising global commodity prices, especially those of energy and agricultural commodities – the pace of deflation was steadily declining in 2015 Q2. Household and corporate inflation expectations continued to run very low.

Taking into account the above considerations, notably receding deflation, accelerated GDP growth and the ongoing improvement in the labour market, as well as significant interest rate reduction in the previous quarters, the Council kept interest rates unchanged in 2015 Q2.

Data incoming in 2015 Q3 and Q4 pointed to a further moderate growth in global economic activity. In the euro area, the pace of growth – following a certain acceleration in 2015 Q2 – levelled off, whereas in the United States – despite some slowdown in 2015 Q2 – GDP growth exceeded that in the euro area. Data from China signalled, in turn, a continuing economic slowdown. Together with the deepening recession in Russia and Brazil, this gave rise to mounting concerns about the outlook for growth in emerging economies. The rising risk of a more pronounced slowdown in these economies contributed to undermining financial market sentiment, which led to a considerable fall in the prices of many assets, including depreciation of those economies' currencies and increases in their bond yields. This was also reflected in a decline in the prices of Polish assets and a depreciation of the zloty. Moreover, a renewed and unexpected fall was observed in the global prices of most commodities, including oil and agricultural commodities.

Given moderate global economic activity and declining commodity prices, in many countries inflation continued to be very low in the second half of the year. In the United States and the euro area it was close to zero. In these circumstances, the ECB continued its asset purchases, while signalling the possibility of a further monetary policy easing. In contrast, the Fed hinted at a possible interest rate increase due to the improving labour market conditions. The increase eventually took place in December. The People's Bank of China, in turn, devalued the yuan, which – together with the interest rate rise in the United States – added to the downward pressure on the currencies of some emerging economies.

In Poland, stable economic growth was sustained, and data for 2015 Q4 signalled the possibility of a slight acceleration in GDP growth. Consumer demand – supported by robust labour market, improved consumer sentiment and rising household loans – continued to be a key driver of economic growth. GDP growth was also fuelled by further rise in investment, even though this was running at a slower pace than in the first half of 2015. Factors conducive to increased investment expenditure by firms included their sound financial performance and high capacity utilisation. At the same time, firms' propensity to invest was hampered by the uncertain outlook for economic activity abroad. Contribution of net exports to GDP growth declined markedly, driven by a slowdown in emerging economies.

As the output gap remained negative, if gradually narrowing, there was no demand pressure in the Polish economy. At the same time, the renewed decline in global commodity prices and the moderate nominal wage growth curbed cost pressure, which was reflected in the still negative producer price growth. As a result, the annual consumer price growth continued negative, although the pace of deflation was slower than in the previous quarters. Inflation expectations stood at a stable, though still very low, level.

In 2015 Q3 and Q4, the Council assessed that the continuation of stable economic growth in Poland, supported by the ongoing improvement in labour market conditions and a rise in economic activity in the euro area, would lead to a gradual increase in prices in the medium term. At the same time, the risk of a sharper slowdown in emerging economies and its potential impact on global economic conditions remained a source of uncertainty for future price developments; other uncertainty factors included a further decline in commodity prices and the persistently low inflation in the environment of the Polish economy. Given the above considerations, the Council was keeping the NBP interest rates unchanged in the second half of 2015, judging that – despite persistent deflation – steady improvement in labour market and stable economic growth were limiting the risk of adverse effects of price growth deviating from inflation target. At the same time, in the opinion of the Council, the set level of interest rates was conducive to curbing risks to price stability in the longer term and preventing the built-up of macroeconomic imbalances. In particular, such a level of interest rates limited the risk of excessive growth in lending and asset prices.

Like in the previous years, communication with the public played an important role in the implementation of monetary policy within inflation targeting framework in 2015. Thus, the Council presented the rationale for the decisions made and provided an assessment of economic developments behind these decisions. The key communication instruments in 2015 continued to include the cyclical publications: *Information from the meeting of the Monetary Policy Council* (with the accompanying press conferences held after the Council's meetings), *Minutes of the Monetary Policy Council decision-making meetings*,[1] *Inflation Reports*, as well as the annually published: *Report on Monetary Policy Implementation in 2014* and *Monetary Policy Guidelines for 2016*.

[1] The *Minutes of the Monetary Policy Council decision-making meetings* (constituting Annex 6 hereto) contain a more detailed coverage of issues and arguments with an impact on the decisions made by the Council in 2015.

3. Monetary policy instruments in 2015

NBP interest rates were the key monetary policy instrument in 2015. The level of the reference rate determined the yields on open market operations. The deposit and lombard rates, in turn, set the interest rate on standing facilities.

The set of policy instruments applied by NBP in 2015 was consistent with the adopted monetary policy strategy and with the persistent liquidity surplus in the banking sector.

Liquidity of the banking sector in 2015

In 2015, NBP pursued its monetary policy amidst a liquidity surplus prevailing[2] in the banking sector. The amount of the liquidity surplus averaged PLN 89 592 million[3] and was PLN 19 224 million, or 17.7%, lower than in 2014.

The level of excess liquidity fluctuated in the course of 2015. In the first eight months, it followed a downward trend. In this period, the average monthly liquidity surplus declined from PLN 102 024 in January to PLN 80 944 in August. In the following three months, the liquidity surplus increased, which was related to higher amounts of NBP purchases of foreign currencies from the account of the Ministry of Finance. In November, excess liquidity was running at PLN 89 566 million, and in December, at PLN 87 664 million. As a result, its average level as at December 2015 was PLN 11 554 million (i.e. 11.6%) less than in 2014.

The key factor affecting the level of liquidity in the banking sector in 2015 was the increase in the volume of money in circulation. This factor accounted for a decrease of PLN 21 985 million in the banking sector liquidity (in terms of the December 2014 to December 2015 average). The level of liquidity in the banking sector was also affected by the rise in the required reserve holdings. Such a factor reduced the liquidity by an average of PLN 2 853 million between December 2014 and December 2015.

The key factor increasing the level of liquidity in the banking sector in 2015 was NBP transactions involving the purchase of foreign currency from the currency account of the Ministry of Finance. The surplus of foreign currency purchases over their sales by NBP in 2015 led to an increase of PLN 13 941 million in the banking sector liquidity surplus in 2015.

NBP interest rates

An instrument of key significance for monetary policy implementation in 2015 was the NBP reference rate. Changes in this rate determined the course of the monetary policy pursued by NBP. The reference rate determined the yields on open market operations, which constituted the key instrument used by NBP to affect the level of the interest on short-term money market instruments.

[2] The liquidity surplus in the banking sector are the funds held by the banking sector in excess of the required reserve. Liquidity surplus is measured by the combined balance of the NBP open market operations and standing facility operations.
[3] During the required reserve maintenance period.

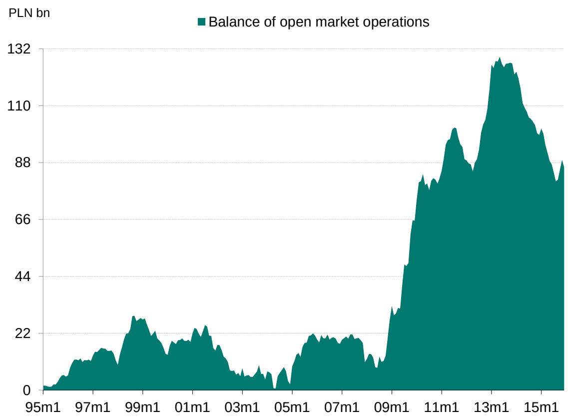
The range of fluctuations of interbank overnight interest rates was determined by the NBP deposit and lombard rates.

Open market operations

In 2015 NBP conducted its monetary policy in a way to allow the POLONIA rate[4] to run close to the NBP reference rate. This was achieved mainly by means of open market operations (main and fine-tuning operations), carried out at the initiative of the central bank.

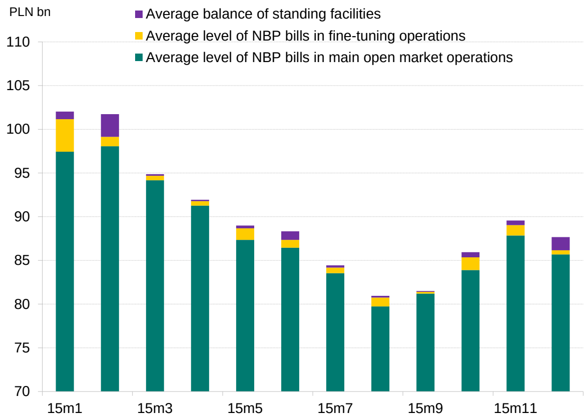
By using the main open market operations, the central bank affected the amount of liquidity in the banking sector, striving to ensure conditions in which banks could balance their own liquidity positions in the required reserve maintenance periods. At the same time, the yields on the individual operations, which are equal to the NBP reference rate as at the date of the operation, had a direct impact on the cost of money determined in the interbank market (including the POLONIA rate which represents this cost).

Figure 1 Average monthly balance of open market operations 1995 - 2015



Source: NBP data.

Figure 2 Liquidity absorbing instruments in the respective months of 2015



Source: NBP data.

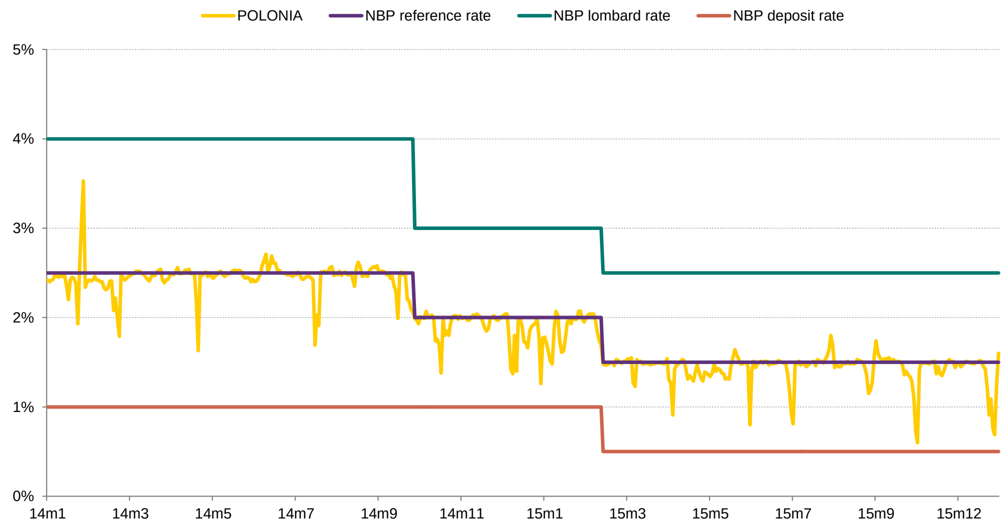
In 2015, the main open market operations were carried out on a regular weekly basis, in the form of issuance of NBP bills with a 7-day maturity and a yield equal to the NBP reference rate. They were the main instrument of sterilising the liquidity surplus existing in the banking sector. In 2015, the average daily volume of NBP bills categorised as main open market operations amounted to PLN 87 984 million and was PLN 19 296 million lower than the 2014 level.

In 2015, apart from the main open market operations, NBP also conducted fine-tuning open market operations, which played a supporting role in implementing the operational target of monetary policy. Fine-tuning operations were conducted for similar reasons as the main operations, i.e. NBP's intention to ensure adequate conditions for banks to balance their liquidity positions. Yields on the fine-tuning operations were equal to the NBP reference rate binding on the day of the transaction.

[4] POLONIA (Polish Overnight Index Average) – the 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.

In 2015, fine-tuning operations were conducted on a regular basis on the last business day of the required reserve maintenance period (altogether, 12 such operations were conducted). In addition, in January 2015 NBP carried out two fine-tuning operations within the required reserve maintenance period. For comparison, seven such operations (i.e. ones which did not occur on the last working day of the required reserve maintenance period) were conducted in 2014; 13 in 2013; 11 in 2012 and 20 in 2011. All the fine-tuning operations in 2015 involved the issuance of NBP bills. The average monthly issue amounted to PLN 1 108 million and was PLN 130 million lower than in 2014 .

Figure 3 NBP interest rates and the POLONIA rate in 2014-2015



Source: NBP data.

Managing the banking sector liquidity primarily by conducting open market operations and the possibility of using the averaged required reserve system ensured conditions in which banks were able to balance their own liquidity positions effectively in the required reserve maintenance period. As a result, the NBP standing facilities (especially the overnight deposit) were used by banks only to a limited extent. Such developments were reflected in the high effectiveness of the central bank in implementing its 2015 operational monetary policy target. This manifested itself in the POLONIA rate running close to the NBP reference rate. The average absolute spread between the POLONIA rate and the NBP reference rate was 12 bp in 2015[5]. In the previous years, this indicator stood at the following levels: 11 bp in 2014, 18 bp in 2013, 21 bp in 2012 and 43 bp in 2011. At the same time, it should be stressed that the spread between the POLONIA rate and the NBP reference rate in 2014-2015 were the lowest since this index became operational target of monetary policy (i.e. since 2008). For comparison, during the first nine months of 2008 (i.e. before the collapse of the Lehman Brothers investment bank), the above-mentioned spread stood at 19 bp.

[5] The quoted index has been computed as the average absolute daily deviation of the POLONIA rate from the NBP reference rate (the average module of difference) based on a 365-day base.

Reserve requirement

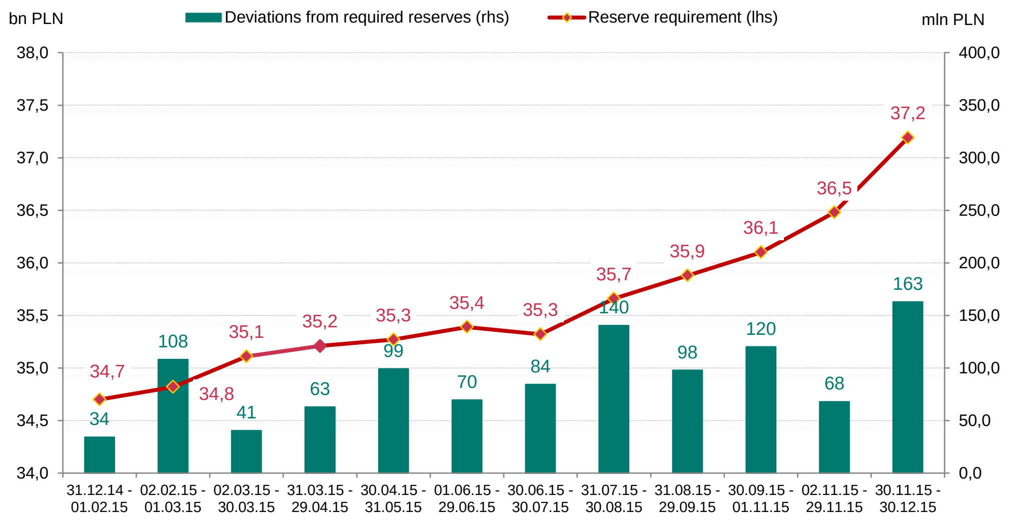
The system of required reserves contributed to the stability of short-term market interest rates. This resulted from its averaged basis, allowing entities to freely determine the amount of holdings at the central bank during the required reserve maintenance period, provided that the average balances held at NBP in the required reserve maintenance period were at least equal to the required reserve level. Moreover, the obligation to maintain the required reserve limited the volume of the NBP open market operations necessary to sterilise the excess liquidity prevailing in the banking sector in 2015.

The required reserves were calculated and maintained in Polish zloty. In 2015, 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 requirement stood at 0.0%.

The amount of required reserves as at 31 December 2015 stood at PLN 37 115 million, including the required reserve of commercial banks of PLN 34 601 million, cooperative banks of PLN 2 175 million and credit unions and the National Association of Credit Unions of PLN 339 million. This represents an increase of PLN 2 419 million, i.e. 7.0%, on the level noted on 31 December 2014. The main factor responsible for the increase in the total amount of the required reserve holdings was the rise in the deposits of the banking sector on which the required reserve was calculated.

The remuneration on the required reserve balances in 2015 was equivalent to 0.9 of the NBP reference rate. This means that an average interest rate during 2015 was equal to 1.43%, compared with 2.32% in 2014.

Figure 4 Changes in required reserves level and deviations from the reserve requirement in 2015



Source: NBP data.

In all the required reserve maintenance periods in 2015, entities' average holdings at NBP remained slightly above the required reserve level. The surplus ranged from the lowest point of PLN 34.0 million in January to a peak of PLN 163.0 million in December. The average surplus of the required reserves holdings in 2015 amounted to PLN 90.7 million and accounted for 0.25% of the average level of required reserves.

Eight instances of failure to maintain the required reserve level were observed in 2015, including two by commercial banks, three by cooperative banks and three by credit unions.

Standing facilities

Standing facilities (overnight deposit facility and lombard credit) acted as a tool for stabilising the level of liquidity in the interbank market and overnight rates determined in this market (particularly the POLONIA rate). These operations were conducted at the initiative of banks. The main objective of the central bank in offering standing facilities to banks was to provide the banking sector with the possibility to supplement their liquidity needs for the term of 1 day, or to place funds with NBP for the same period.

The interest rate of lombard credit, setting the maximum price of borrowing money at NBP, determined the upper bound of overnight rate fluctuations in the interbank market. The overnight deposit rate, in turn, provided the floor for these fluctuations.

In 2015, like in previous years, banks used the lombard credit only occasionally. The total drawing on this credit in 2015 was PLN 10.9 million and was 4.5 times lower than in 2014 (PLN 48.7 million). The average daily drawing on the lombard credit stood at PLN 29.9 thousand (compared with PLN 133.3 thousand in 2014).

In 2015, banks placed overnight deposits totalling PLN 182.6 billion at NBP (calculated for the period of their holding), i.e. 67.7% higher than in the previous year. The total amount of overnight deposits fluctuated between PLN 1.0 million and PLN 9.9 billion. The average daily overnight deposit amounted to PLN 500 million, as against PLN 298 million in 2014. Banks deposited the highest amounts with NBP on the last days of the required reserve maintenance periods.

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 2015, the central bank did not conclude any such transactions.

Foreign exchange interventions

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

In 2015, the central bank did not carry out any such operations.

Appendix 1. Economic developments abroad

Global economic growth continued at a moderate pace in 2015, with economic conditions varying significantly across countries. In the euro area, recovery was ongoing, although GDP growth remained relatively low. In the United States, economic growth outpaced that in the euro area, yet it slowed in the second half of the year. In the emerging economies being Poland's important trading partners, i.e. Russia and Ukraine, economic conditions weakened markedly in 2015. At the same time, global commodity prices declined sharply. The relatively slow economic growth across the world, combined with the fall in the prices of most energy commodities, was supportive of sustained very low inflation in the environment of the Polish economy, including deflation in most countries of Central and Eastern Europe.

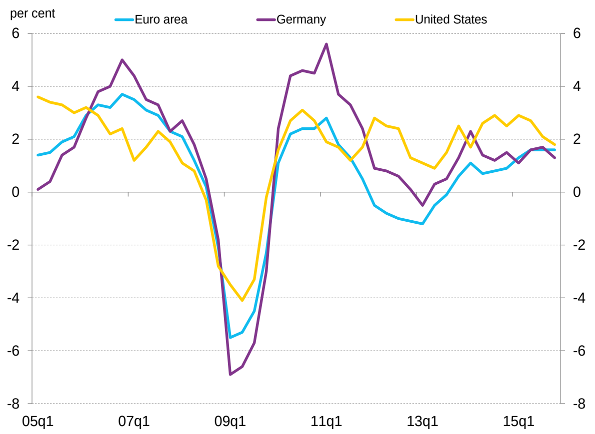
In the euro area, Poland's main trading partner, GDP growth accelerated in 2015 in comparison with 2014, yet remained relatively low (Figure 5). Recovery was driven by rising consumer demand, underpinned by stronger consumer sentiment, mainly due to improving labour market conditions and a rise in real disposable income. Higher economic activity in the euro area was also supported by growth in investment and general government expenditure. This, in turn, was attributable to greater credit availability and lower government bond yields resulting from highly expansionary monetary policy of the ECB, including the purchases of government bonds of the euro area countries continued since 2015 Q1. The ECB's quantitative easing was also conducive to a depreciation of the euro against other currencies, including the dollar, which boosted export growth. Despite this, the pace of economic activity in the euro area was considerably slower than in the United States, which can be related to structural problems, such as the still high public and private debt in some member states. Furthermore, the growth in the region’s exports was hampered – especially in the second half of the year – by sluggish demand growth in major emerging economies.

In the United States, economic situation and the assessment of its outlook varied throughout the year (Figure 5). In the first half of the year, incoming data and forecasts pointed to a continued recovery. GDP growth was still driven by robust labour market and sustained growth in real estate prices, which supported rising household spending. In the second half of the year, the pace of economic growth slowed down, amidst weaker corporate investment, which was in part due to a decline in the activity of the mining and quarrying sector. Another factor dragging on GDP growth were deteriorating business conditions in industry, especially its export-oriented part, in the wake of the considerable appreciation of the dollar.

In the emerging economies of significance to the business climate in Poland, i.e. Russia, China and Ukraine, economic conditions deteriorated in 2015 (Figure 6). Ukraine was still in economic crisis, while Russia entered a recession, which was mainly triggered by the sharp decline in commodity prices, coupled with economic sanctions launched, among others, by many European countries. At the same time, in China GDP growth gradually decelerated, to fall to the 25-year low in 2015, although it still exceeded those in many other countries. The slowdown in China was primarily driven by a decline in investment growth, particularly in the real estate market, and by the flagging demand from some important trading partners, including other emerging economies. The weaker GDP growth in

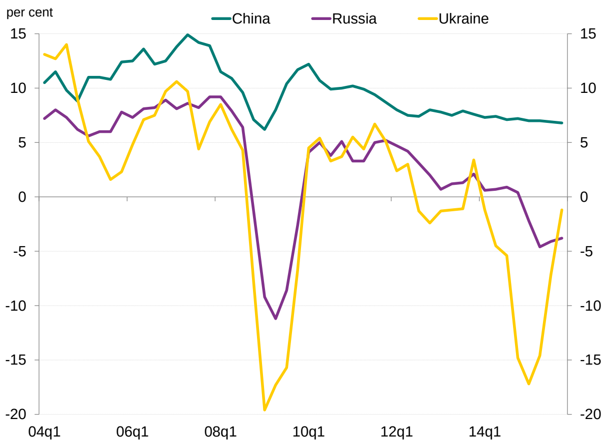
China – along with rising concerns about the outlook for this economy – caused a sharp drop in the country's stock market prices starting in mid-2015, which had an additional negative impact on both economic conditions in China and sentiment in global financial markets.

Figure 5 GDP growth in major developed economies (y/y) in 2004-2015



Source: Bloomberg, Eurostat data.

Figure 6 GDP growth in selected emerging economies (y/y) in 2004-2015

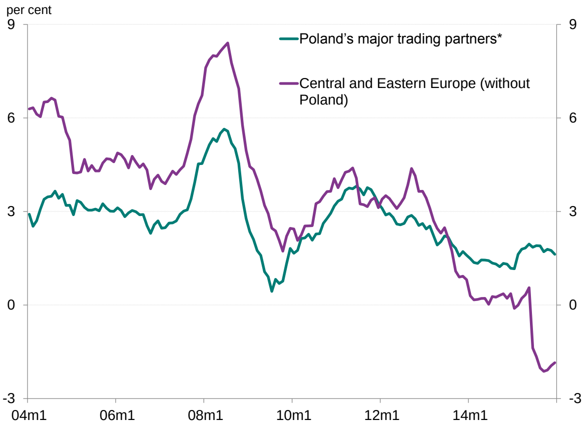


Source: Bloomberg data.

Price growth in many economies was very low, mainly due to a moderate global economic activity and declining energy commodity prices, including oil prices (Figure 7, Figure 8). The fall in oil prices was supported by high output of this commodity in, among others, the United States, Saudi Arabia and Russia, and sluggish demand from developing economies, including China. Also a marked decline in the prices of industrial metals, as well as the prices of agricultural commodities, was observed in 2015.[6] In some emerging commodity-exporting economies, notably Russia and Brazil, inflation rose sharply in 2015. The steep price growth in these countries was to a great extent driven by a considerable depreciation of their currencies, related primarily to the decline in global commodity prices. At the same time, low commodity prices were conducive to lower inflation in the remaining emerging economies, including China.

[6] Between December 2014 and December 2015, oil prices declined by 38.5%, coal prices by 23.8%, gas prices by 44.4%, prices of agricultural commodities by 13% and prices of industrial metals by 26.3%.

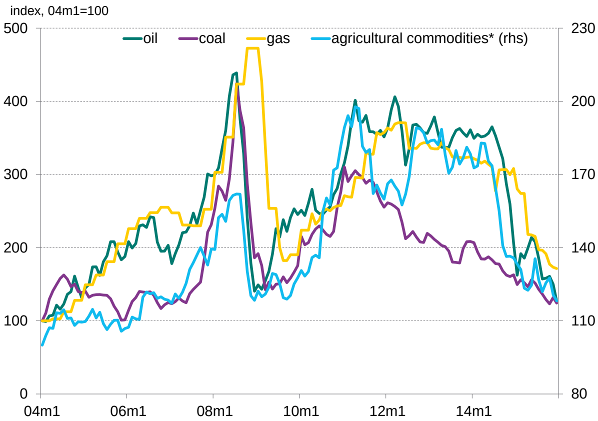
Figure 7 Inflation in Poland's external economic environment in 2004-2015



Source: Bloomberg data, NBP calculations.

* Average consumer inflation in Poland's major trading partners i.e. countries accounting for 80% of Polish imports (the euro area, China, Russia, United Kingdom and Sweden), weighted by the share of these countries in Polish imports in 2015.

Figure 8 Global commodity prices in 2004-2015



Source: Bloomberg data, NBP calculations.

*The agricultural commodity price index comprises the prices of wheat, rape, pork, potatoes, sugar, cocoa, coffee, skimmed powdered milk, butter and condensed frozen orange juice. The system of weights used in ICSR reflects the consumption structure of Polish households.

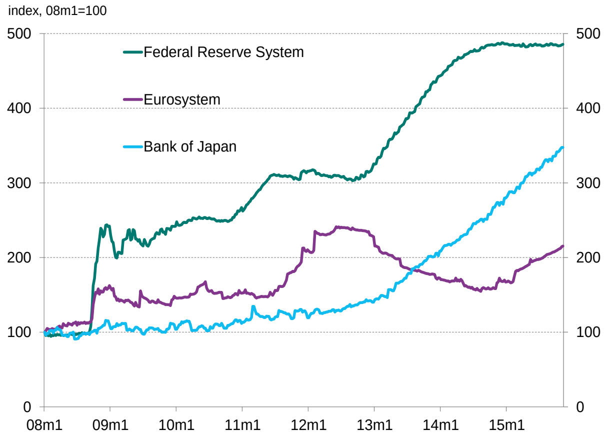
Against this background, the 2015 monetary policy of major central banks continued to be highly expansionary, albeit to a varying degree. The Fed signalled the possibility of an interest rate increase, yet market expectations about its timing fluctuated considerably during the year. Ultimately, the Fed raised its interest rates in December 2015. This notwithstanding, the ECB embarked on a programme of government bond purchases, and in Q4 expanded its scale and decreased the overnight rate to an even more negative level (Figure 9).[7] The Swiss National Bank (SNB), in turn, unexpectedly abandoned the asymmetric exchange rate against the euro, which led to a sharp appreciation of the franc against most currencies, including the zloty.[8]

In 2015, large swings in sentiment were seen in international financial markets as reflected in the elevated volatility of asset prices. In the euro area, prices of stocks and bonds were rising on the back of the ECB's decision to launch a programme of asset purchases, which was also one of the factors behind the depreciation of the euro against the dollar in this period (Figure 10). Next, in 2015 Q2, prices of stocks and bonds in the euro area began to decline due to heightened concerns about Greece's insolvency. In the second half of the year, sentiment worsened in most financial markets. This was related to the signals of a possible monetary policy tightening by the Fed as well as the mounting concerns about economic situation in China. Weaker outlook for the commodity-exporting economies and the signs of a slower growth in the United States also weighed on investors' sentiment. Increased concerns of investors were reflected in rising yields on the government bonds of emerging economies and a decline in the global stock indices, primarily in emerging markets. This was combined with a considerable depreciation of the currencies of most emerging economies (Figure 10).

[7] In 2014 Q4 the ECB started a programme of financial asset purchases. In 2015 Q1, the ECB expanded the programme, to include the purchase of government bonds, announcing an extension of asset purchases until at least September 2016. In 2015 Q4 the programme was expanded to include municipal bonds as well as being extended until the end of 2017 Q1. Moreover, in 2014 Q2, the ECB, for the first time in history, decreased the overnight rate below zero (to -0.10%), to subsequently take it further down in 2014 Q3 (to -0.20%), and in 2015 Q4 (to -0.30%).

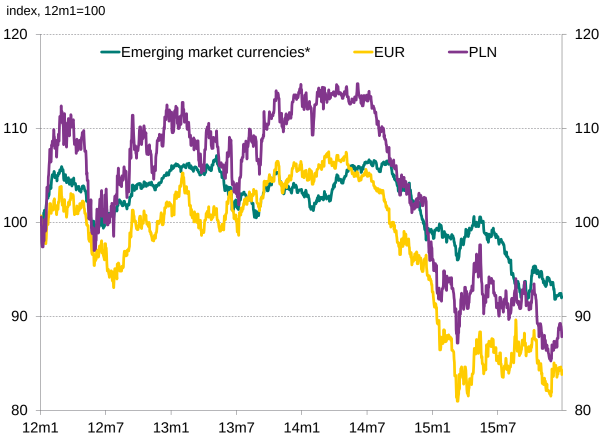
[8] At the same time, the SNB lowered its interest rates, causing the LIBOR CHF 3M to fall from 0% in 2014 Q4, to -0.71% in 2015 Q1.

Figure 9 Assets of the major central banks in 2008-2015



Source: Bloomberg data, NBP calculations.

Figure 10 Exchange rates of selected currencies against the US dollar increase denotes appreciation of a currency)



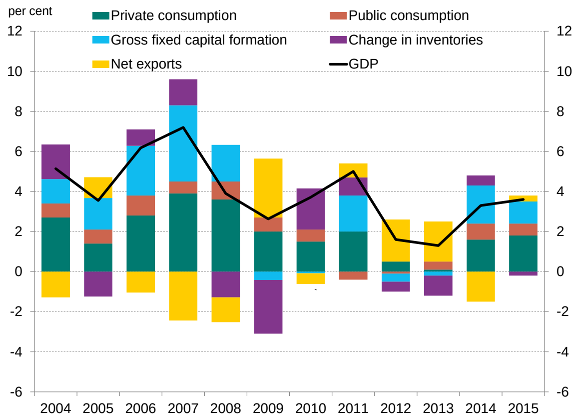
* MSCI Emerging Markets Currency Index

Source: Bloomberg data, NBP calculations.

Appendix 2. GDP and domestic demand[9]

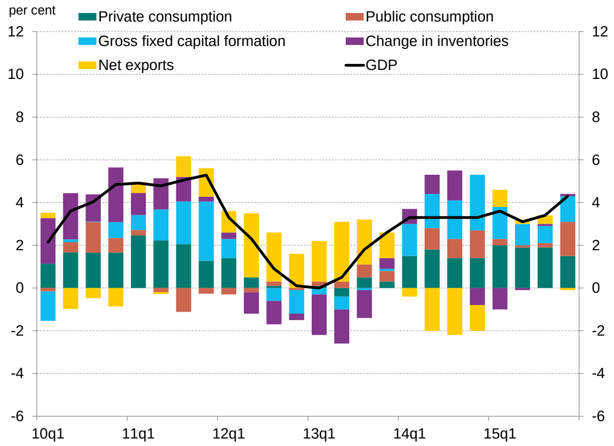
In 2015, GDP growth amounted to 3.6% (as compared to 3.3% in 2014; Figure 11). Like in the previous year, the primary driver of economic growth was domestic demand, especially consumer demand. Net exports also made a positive contribution to GDP growth.

Figure 11 GDP growth and its components in 2004-2015 (annual data)



Source: GUS data.

Figure 12 GDP growth and its components in 2010-2015 (quarterly data)



Source: GUS data.

The pace of economic growth was stable despite slight fluctuations during the year: following an acceleration in 2015 Q1, it dropped somewhat in 2015 Q2, to pick up gradually in 2015 Q3 and Q4. (Figure 12). Developments in the main components of aggregate demand are discussed below (see Table 1).

In 2015, private consumption growth accelerated compared to the previous year's pace. The rise in consumption was fuelled by an increase in households' real income due to improvement in labour market conditions, involving higher employment and real wage growth. Factors contributing to the recovery in private consumption also included growth in lending to households and stronger consumer sentiment.

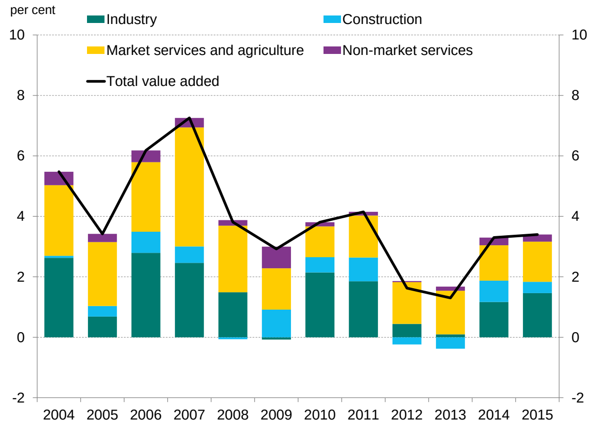
Gross fixed capital formation continued to rise in 2015, albeit at a slower rate than in 2014. Similarly to the previous years, its growth was mainly fuelled by a rise in corporate investment, which was in turn underpinned by firms' expectations of increased demand for their output, amid high capacity utilisation. Moreover, corporate investment growth benefited from firms' sound financial position enabling the self-financing of their projects, as well as from high availability of investment loans and lower interest charged on them than in the previous years. Accelerated growth in housing investment also added to the overall investment growth in the economy. Recovery in this category of investment was supported by a steady rise in employment and real wages, as well as the extension, from

[9] The national accounts data presented in Appendix 2 are compliant with the ESA 2010 methodology.

September 2015, of the government scheme "Flat for the Young".[10] At the same time, total investment growth was dragged by the flagging growth of general government sector investment. This was due to lower local government expenditure financed from the EU funds.

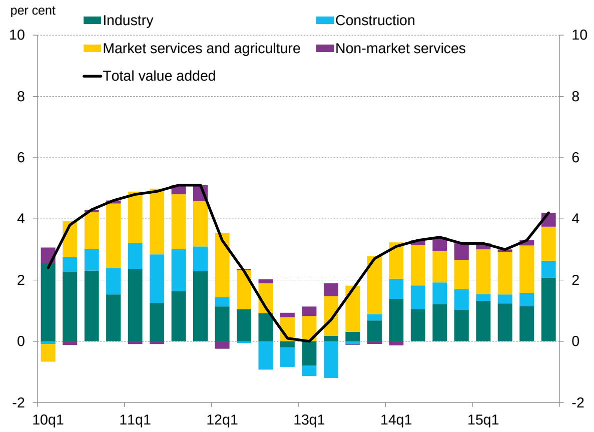
In 2015, net exports made a slightly positive contribution to GDP growth, as export growth exceeded that of import. The rise in exports was driven by a recovery in the euro area, notably in Germany, Poland's main trading partner. A depreciation of the real exchange rate of the zloty worked in the same direction, underpinning the price competitiveness of Polish exports. Alongside that, import growth was dampened by slower capital formation, which is a highly import-intensive component of aggregate demand.

Figure 13 Gross value added growth and its components in 2004-2015 (annual data)



Source: GUS data.

Figure 14. Gross value added growth and its components in 2010-2015 (quarterly data)



Source: GUS data.

Gross value added growth increased slightly in 2015, to reach 3.4% y/y (against 3.3% y/y in 2014; Figure 13). The GDP breakdown by sectors indicates that gross value added growth was mainly generated in industry and services.

[10] In September 2015, the amendment to the Act on State Aid in the Purchase of a First Home for Young People came into effect, resulting, among others, in an extension of the "Flat for the Young" scheme to include the purchases in secondary home market, as well as an increase in the amount of down-payment subsidy under this scheme.

Table 1 GDP and domestic demand in 2009-2015

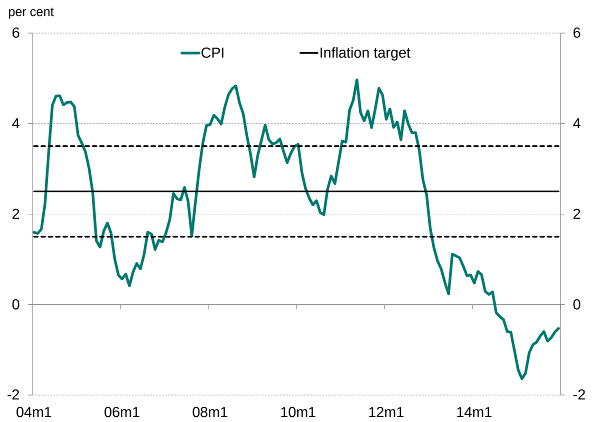
	2009	2010	2011	2012	2013	2014	2015	2015			
	GDP annual growth and its components at constant prices (%)										
								q1	q2	q3	q4
GDP	2.6	3.7	5.0	1.6	1.3	3.3	3.6	3.7	3.3	3.5	3.9
Domestic demand	-0.3	4.2	4.2	-0.5	-0.7	4.9	3.3	2.9	3.1	3.2	4.0
Consumption	3.5	2.8	2.0	0.5	0.7	3.1	3.1	3.2	2.9	2.9	3.5
Private consumption	3.3	2.5	3.3	0.8	0.2	2.6	3.1	3.1	3.1	3.1	3.1
Capital formation	-12.7	9.7	12.8	-3.9	-5.8	12.6	4.1	1.1	4.0	4.0	5.4
Gross fixed capital formation	-1.9	-0.4	8.8	-1.8	-1.1	9.8	6.1	11.5	6.1	4.6	4.9
Exports	-6.3	12.9	7.9	4.6	6.1	6.4	6.5	8.4	4.8	3.9	9.1
Imports	-12.4	14.0	5.5	-0.3	1.7	10.0	6.0	6.8	4.5	3.1	9.4
Contribution of net exports to GDP growth (percentage points)	2.9	-0.5	0.9	2.1	2.0	-1.5	0.4	0.9	0.2	0.4	0.0
	Structure of GDP in current prices (%)										
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-			
Domestic demand	100.8	101.8	101.8	100.5	98.1	98.7	97.2	-			
Consumption	80.5	80.8	79.5	79.5	79.1	78.4	76.8	-			
Private consumption	60.8	60.6	60.5	60.7	60.0	59.3	58.0	-			
Capital formation	20.2	21.0	22.2	21.0	19.0	20.3	20.4	-			
Gross fixed capital formation	21.1	19.8	20.3	19.8	18.8	19.6	20.1	-			
Exports	37.6	40.5	43.1	44.4	46.3	47.4	49.2	-			
Imports	38.3	42.3	44.9	44.9	44.4	46.2	46.4	-			
Net exports	-0.8	-1.8	-1.8	-0.5	1.9	1.3	2.8	-			

Source: GUS data.

Appendix 3. Consumer prices

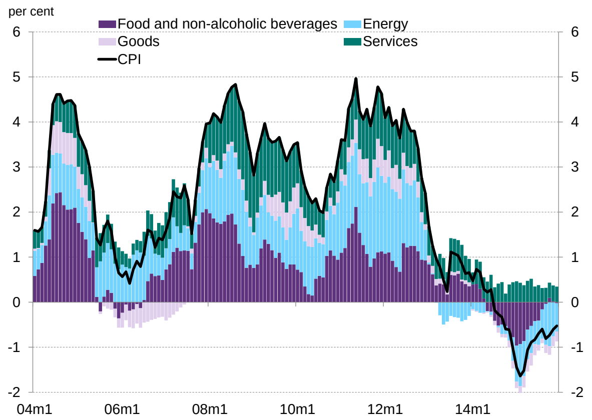
In 2015, the average annual growth rate of the consumer price index (CPI) was -0.9%, below the NBP inflation target of 2.5% +/- 1 percentage point (Figure 15). Price growth was weaker than in 2014 and lower than forecasted in 2014 and 2015. The decrease in inflation in 2015 was driven mainly by external factors – especially a strong and unexpected fall in global commodity prices and low inflation in the environment of the Polish economy, but also by lack of domestic demand and cost pressure. Yet, the pace of deflation was decelerating throughout 2015, mainly due to increasing rate of growth of food prices.

Figure 15 Annual CPI and the inflation target in 2004-2015



Source: GUS data.

Figure 16 Annual growth in the prices of consumer goods and services and contributions of main price categories to CPI growth in 2004-2015



Source: GUS data, NBP calculations.

The major factor behind deflation in Poland in 2015 was a fall in global commodity prices, mainly energy commodities (Figure 16).[11] In particular, a slump was recorded in oil prices, whose global output continued to rise rapidly amidst only moderate growth in demand for this commodity as well as current and projected slowdown in global economic growth (see Appendix 1 *Economic developments abroad*). The decline in oil prices led to lower domestic prices of fuels for private motor vehicles and administered gas prices. At the same time, falling commodity prices were reflected in further deflation of producer prices, which curbed cost pressure in the economy. Under these conditions, 2015 saw a continued decline in the prices of goods, which was also supported by low price growth in the environment of the Polish economy, including zero inflation in the euro area.

An important factor behind weaker average annual price growth in 2015 was also the decline in food prices. It was observed amidst falling market prices of major agricultural commodities worldwide, which was primarily related to favourable weather conditions in 2014 and in the first half of 2015. In Poland, the decline in food prices was additionally driven by the Russian embargo on imports of food

[11] In the period from December 2014 to December 2015, oil prices dropped by 38.5%, coal prices by 23.8% , gas prices by 44.4%, agricultural commodity prices by 13% and industrial metal prices by 26.3%. See also: Appendix 1: Economic developments abroad.

products from, among others, the European Union countries, as well as the loss of some foreign pork markets by Polish producers.[12] Yet, throughout 2015 food price growth was on a gradual rise and since October 2015 its contribution to CPI growth has been positive. Acceleration in food price growth was mainly supported by deteriorating weather conditions in the second half of 2015.[13]

Throughout 2015, deflation was curbed by sustained increase in the prices of services, driven by accelerating GDP growth, including a pick-up in consumer demand, amidst growing employment, falling unemployment and stable growth in lending. The relatively good economic conditions benefited from interest rate cuts in 2015 and in the previous years. An additional factor supporting price growth was the depreciation of the zloty exchange rate, particularly against the US dollar, which boosted the growth of prices of imported goods in 2015 as compared to 2014.

The consumer price index reflects price developments in four main categories (i.e. food and non-alcoholic beverages, energy, goods and services), whose growth rate in 2015 continued below the long-term average. Specifically, in 2015 price developments in individual categories were as follows.[14]

- Prices of **energy** decreased by 4.2% y/y, and their direct contribution to the change in the average annual CPI index was -0.7 percentage points. The following factors contributed to the decline in energy prices:
  - decrease in fuel prices (driven by the decline in crude oil prices in the global commodity markets);
  - reduction in gas prices (due to cuts in tariffs in January and September 2015, related to falling gas prices in the global markets);
  - decline in heating fuel prices (related to a fall in coal prices in the global markets).

- Prices of **food and non-alcoholic beverages** decreased by 1.7% y/y, and their contribution to the change in the average annual CPI index reached -0.4 percentage points. The decline in prices in this category was fuelled mainly by:
  - falling meat prices (associated with meat oversupply in domestic and European market);
  - falling prices of dairy products (amidst oversupply of dairy products due to the deregulation of the European milk market as of 1 April 2015 and with the Russian embargo);
  - decline in the price of oils (amidst falling prices of edible oils in the global market) and other fats (mainly due to lower prices of intermediate goods, including meat and dairy products).

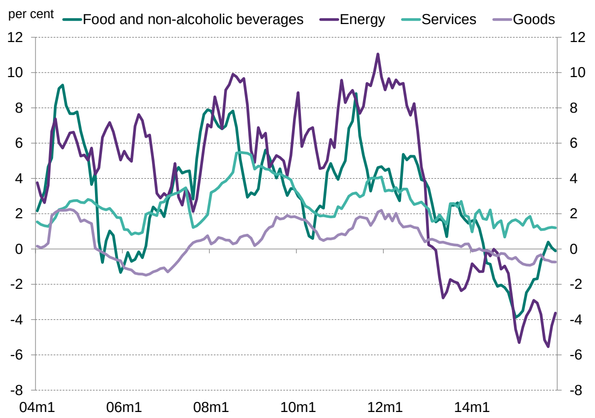
[12] This was the result of the introduction of restrictions in many countries on the import of pork from Poland in 2014 Q1 due to the outbreaks of African swine fever in Poland.

[13] Annual price growth of vegetables also benefited from the positive base effect, being the consequence of an untypical fall in the price of vegetables in 2014 Q3 related to high crops and the Russian embargo.

[14] The categories are listed in order of their contribution to the total CPI index in 2015, starting with the category with the largest negative contribution and ending with the category of the largest positive contribution.

- Prices of **goods** decreased by 0.7% y/y, contributing to the decline in the average annual CPI index by 0.2 percentage points. The decline in goods' prices was mainly due to the fall in the prices of clothing and footwear (seen for more than 10 years), as well as motor vehicles.
- Prices of **services** increased by 1.4% y/y, and their contribution to the average annual CPI inflation rate was 0.4 percentage points. The rise in prices encompassed the majority of the main categories of services and was observed against the accelerating economic growth and improving labour market conditions.

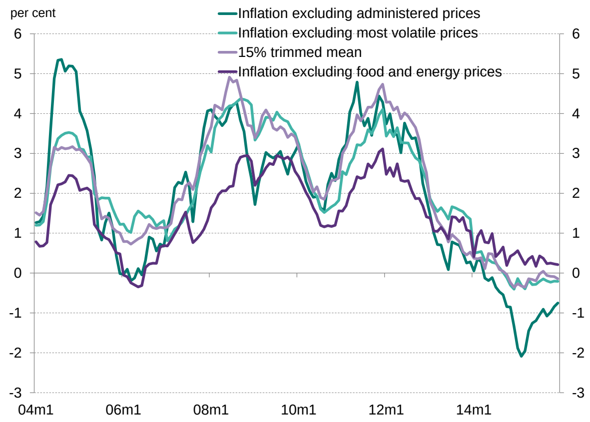
Figure 17 Annual growth in the prices of food, non-alcoholic beverages, energy, goods and services in 2004-2015*



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 Core inflation measures in 2004-2015 (y/y)



Source: GUS data, NBP calculations.

Table 2 Annual growth in consumer goods and services prices and the contribution of the main price categories to CPI

	Weight 2015 %	Change (y/y, %) 2015 I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	Annual average
CPI	100.0	-1.4	-1.6	-1.5	-1.1	-0.9	-0.8	-0.7	-0.6	-0.8	-0.7	-0.6	-0.5	**-0.9**
Core inflation	58.1	0.6	0.4	0.2	0.4	0.4	0.2	0.4	0.4	0.2	0.3	0.2	0.2	**0.3**
Goods	29.8	-0.5	-0.7	-0.8	-0.9	-0.9	-0.8	-0.4	-0.3	-0.6	-0.6	-0.7	-0.7	**-0.7**
Services	28.3	1.7	1.5	1.3	1.7	1.9	1.2	1.3	1.1	1.1	1.2	1.2	1.2	**1.4**
Food and non-alcoholic beverages	24.4	-3.9	-3.7	-3.5	-2.5	-2.2	-1.7	-1.7	-0.7	-0.2	0.4	0.1	-0.1	**-1.7**
Meat	6.5	-3.3	-3.5	-2.8	-2.5	-3.3	-3.5	-4.0	-3.6	-2.6	-2.2	-2.1	-2.5	**-3.0**
Vegetables	2.4	-13.9	-11.2	-10.3	-6.7	-2.4	0.0	-0.4	8.3	11.1	14.1	9.0	7.0	**-0.7**
Fruit	1.4	-7.6	-8.3	-9.7	-5.2	-0.3	3.4	6.3	9.7	8.4	10.0	9.1	9.0	**1.7**
Processed	13.3	-1.9	-2.0	-2.0	-1.4	-1.8	-1.8	-1.7	-1.5	-1.5	-1.4	-1.2	-1.1	**-1.6**
Unprocessed	11.0	-6.2	-5.8	-5.3	-3.7	-2.5	-1.7	-1.7	0.4	1.5	2.6	1.7	1.1	**-1.7**
Energy	17.5	-4.6	-5.3	-4.4	-3.8	-3.4	-2.9	-3.1	-3.7	-5.2	-5.5	-4.3	-3.6	**-4.2**
Energy carriers	12.0	0.4	0.3	0.4	0.4	0.5	0.4	0.4	0.2	-0.5	-0.6	-0.7	-0.6	**0.1**
Fuels	5.5	-15.5	-17.6	-14.8	-13.0	-12.0	-10.2	-10.5	-12.2	-15.4	-16.4	-12.8	-10.8	**-13.5**
							According to 12 COICOP groups							
Food and non-alcoholic beverages	24.4	-3.9	-3.7	-3.5	-2.5	-2.2	-1.7	-1.7	-0.7	-0.2	0.4	0.1	-0.1	**-1.7**
Alcohol and tobacco	6.5	2.7	1.8	1.4	1.1	0.9	0.9	0.9	0.9	1.0	0.9	0.9	0.9	**1.2**
Clothing and footwear	5.3	-5.1	-5.3	-5.3	-5.1	-4.9	-4.8	-4.5	-4.1	-4.4	-4.5	-4.6	-4.5	**-4.8**
Home maintenance and energy	21.1	0.7	0.6	0.7	0.8	0.9	0.9	0.9	0.8	0.4	0.4	0.4	0.4	**0.7**
Home equipment	4.9	-0.3	-0.3	-0.3	-0.2	-0.3	-0.1	-0.3	-0.2	-0.2	-0.4	-0.3	-0.4	**-0.3**
Health	5.2	1.5	1.5	1.1	1.1	1.0	1.0	2.5	2.7	2.3	2.6	2.6	2.6	**1.9**
Transportation	9.0	-10.2	-11.6	-9.9	-9.1	-8.0	-7.3	-7.0	-8.3	-10.0	-10.4	-8.2	-6.8	**-8.9**
Telecommunications	5.3	2.8	2.4	2.1	4.9	4.6	1.4	1.8	0.5	0.3	0.3	0.9	0.8	**1.9**
Recreation and culture	6.4	1.9	1.9	1.2	1.0	1.1	1.2	0.9	1.1	0.0	0.0	-0.6	-0.8	**0.7**
Education	1.0	1.2	1.3	1.2	1.2	1.2	1.1	1.1	1.0	1.1	1.0	0.9	0.9	**1.1**
Restaurants and hotels	5.2	1.3	1.2	1.2	1.3	1.3	1.3	1.3	1.4	1.3	1.2	1.2	1.2	**1.3**
Other goods and services	5.6	-0.2	-0.1	-0.2	-0.5	-0.5	-0.2	-0.2	-0.3	0.0	0.2	0.1	0.0	**-0.1**

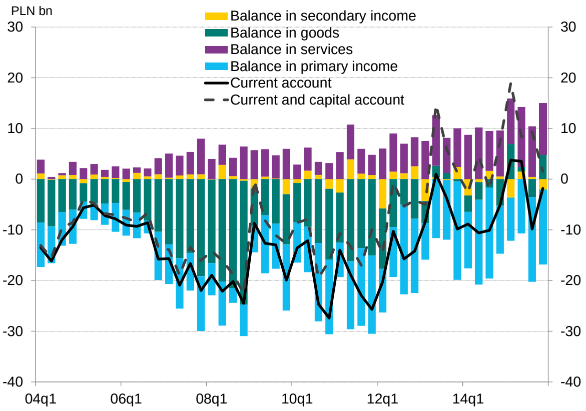
	Weight 2015 %	Change (y/y, %) 2015 I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	Annual average
CPI	100.0	-1.4	-1.6	-1.5	-1.1	-0.9	-0.8	-0.7	-0.6	-0.8	-0.7	-0.6	-0.5	**-0.9**
Core inflation	58.1	0.3	0.2	0.1	0.2	0.2	0.1	0.3	0.2	0.1	0.1	0.1	0.1	**0.2**
Goods	29.8	-0.1	-0.2	-0.3	-0.3	-0.3	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	**-0.2**
Services	28.3	0.5	0.4	0.4	0.5	0.5	0.3	0.4	0.3	0.3	0.3	0.4	0.3	**0.4**
Food and non-alcoholic beverages	24.4	-1.0	-0.9	-0.9	-0.6	-0.5	-0.4	-0.4	-0.2	0.0	0.1	0.0	0.0	**-0.4**
Meat	6.5	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.2	-0.2	-0.1	-0.1	-0.2	**-0.2**
Vegetables	2.4	-0.4	-0.3	-0.3	-0.2	-0.1	0.0	0.0	0.2	0.2	0.3	0.2	0.2	**0.0**
Fruit	1.4	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	**0.0**
Processed	13.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	**-0.2**
Unprocessed	11.0	-0.7	-0.7	-0.6	-0.4	-0.3	-0.2	-0.2	0.0	0.2	0.3	0.2	0.1	**-0.2**
Energy	17.5	-0.8	-0.9	-0.8	-0.7	-0.6	-0.5	-0.5	-0.7	-0.9	-1.0	-0.8	-0.6	**-0.7**
Energy carriers	12.0	0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1	**0.0**
Fuels	5.5	-0.9	-1.0	-0.8	-0.7	-0.7	-0.6	-0.6	-0.7	-0.9	-0.9	-0.7	-0.5	**-0.7**
CPI							According to 12 COICOP groups							
Food and non-alcoholic beverages	24.4	-1.0	-0.9	-0.9	-0.6	-0.5	-0.4	-0.4	-0.2	0.0	0.1	0.0	0.0	**-0.4**
Alcohol and tobacco	6.5	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	**0.1**
Clothing and footwear	5.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	**-0.3**
Home maintenance and energy	21.1	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	**0.1**
Home equipment	4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Health	5.2	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	**0.1**
Transportation	9.0	-0.9	-1.0	-0.9	-0.8	-0.7	-0.7	-0.6	-0.8	-0.9	-0.9	-0.7	-0.6	**-0.8**
Telecommunications	5.3	0.1	0.1	0.1	0.3	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	**0.1**
Recreation and culture	6.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	-0.1	**0.0**
Education	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Restaurants and hotels	5.2	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**
Other goods and services	5.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**

Source: GUS data and NBP calculations based on GUS data.

Appendix 4. Balance of payments

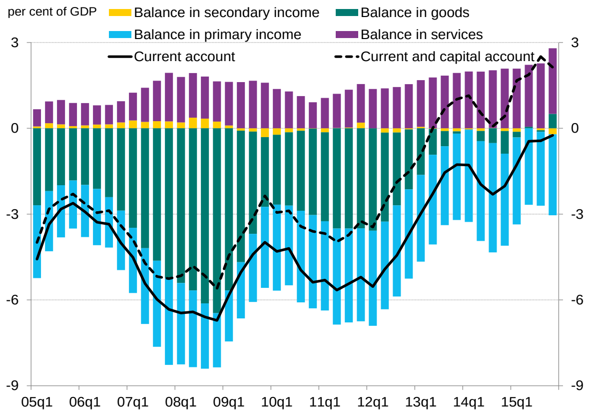
In 2015, the current account deficit was considerably lower than in the previous years and amounted to PLN 4.4 billion, accounting for 0.2% of GDP (as against 2.0% of GDP in 2014 and an average of 4.2% since 2004; Figure 19, Figure 20). The deficit narrowed as compared with the previous year mainly due to the higher trade surplus. The primary and secondary income deficits continued to be the main source of the current account deficit.

Figure 19 Current account balance in 2004-2015 (PLN billion)



Source: NBP data.

Figure 20 Current and capital account balance to GDP (4 quarters rolling window) in 2004-2015



Source: NBP and GUS data.

The growth in the foreign trade surplus was mainly driven by the surplus in the balance of goods seen for the first time since 2004 , amidst an increased positive balance of services (Figure 19). The surplus in the trade of goods in 2015 resulted from export growth exceeding import growth. The rise in exports was primarily supported by a moderate economic recovery in the euro area observed for more than two years and the continuing high price competitiveness of Polish products in the foreign markets. The surplus in the goods account was also driven by falling prices of many commodities – especially oil – in the global markets, which curbed the growth in import value. Yet, the acceleration in domestic economic activity worked in the opposite direction.

As in the previous years, the current account balance in 2015 was adversely affected by the primary income deficit – which was close to the long-term average – and a widening of the small secondary income deficit. The negative balance of primary income was mostly attributable to the high, although lower than in the previous years, income of foreign direct investors amidst sound financial standing of enterprises operating in Poland.

In 2015, the capital account balance remained positive and close to the level seen in the previous years (2.4% of GDP against 2.4% in 2014 and 2.3% in 2013). As a result, due to the decline in the current account deficit, the total current and capital account balance to GDP ratio stayed positive and was higher than in the previous years.

Table 3 Main items of the balance of payments (PLN million) in 2005-2015[15]

Balance of payments	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Current account	-25 796	-42 742	-75 162	-85 780	-54 261	-77 770	-81 497	-60 477	-21 039	-34 687	-4 368
Balance of trade of goods	-17 962	-30 662	-62 172	-82 538	-33 187	-43 677	-54 790	-34 128	-1 345	-13 633	9 012
Balance of services	7 944	7 902	20 119	17 983	21 715	13 174	21 073	25 145	32 070	35 874	41 051
Balance of primary income	-16 540	-22 156	-35 997	-24 209	-38 603	-47 108	-50 914	-50 874	-50 016	-55 281	-50 689
Balance of secondary income	762	2 174	2 888	2 984	-4 186	-159	-3 134	-620	-1 748	-1 647	-3 742
Capital account	3 155	6 482	12 783	14 241	22 097	25 705	30 618	35 711	37 857	41 990	42 491
Financial account	-22 701	-33 750	-68 877	-100 814	-60 189	-92 927	-80 229	-37 275	-18 673	-13 433	31 972
Direct investment: assets	13 526	32 648	20 206	10 027	19 262	28 075	12 944	4 237	-10 502	19 252	10 679
Direct investment: liabilities	35 685	65 806	69 043	34 131	43 754	53 939	53 575	23 929	2 809	53 594	23 416
Portfolio investment: assets	8 133	14 289	17 360	-6 017	4 270	-488	-2 796	1 395	6 891	17 460	41 572
Portfolio investment: liabilities	48 202	5 460	-344	-14 023	47 935	87 130	47 426	65 455	7 289	10 977	29 159
Other investment: assets	8 920	12 388	5 116	-15 369	-17 026	11 878	11 060	7 179	5 286	12 858	19 422
Other investment: liabilities	-4 976	30 991	83 444	62 174	25 254	39 230	18 944	-11 669	11 064	351	-13 143
Derivative financial instruments	-537	2 159	5 427	2 727	5 850	1 789	525	-8 942	-2 200	-58	-3 385
Official reserve assets	26 168	8 023	35 157	-9 900	44 398	46 118	17 983	36 571	3 014	1 977	3 116
Balance of errors and omissions	-60	3 510	-6 498	-29 275	-28 025	-40 862	-29 350	-12 509	-35 491	-20 736	-6 151

Source: NBP data.

The surplus in the current and capital accounts in 2015 resulted in the net outflow of capital abroad, which was reflected in the positive financial account balance reaching its record high. This was driven, on the one hand, by a declining inflow of foreign capital in the form of direct investment to Poland.[16] On the other hand, the scale of the outflow of Polish capital increased again, mainly in the form of portfolio investment, which was due to a rise in investment and pension funds' allocation in foreign assets. At the same time, however, decrease in Polish direct investment abroad, especially in the second half of the year, was narrowing financial account surplus.

The above changes brought about a further improvement in the majority of Poland's external imbalance indicators. In particular, both the trade balance and the current account balance to GDP ratio rose to record highs (Table 4).

[15] With regard to the financial account, the presented figures should be interpreted as follows: a positive (negative) value of residents' investment abroad (items: direct investment: assets, portfolio investment: assets, other investment: assets, official reserve assets) denotes an increase (decrease) in Polish assets abroad. Conversely, a positive (negative) value of non-residents' investment in Poland (items: direct investment: liabilities, portfolio investment: liabilities, other investment: liabilities) means an increase (decrease) in Polish liabilities against non-residents.

[16] The reduced inflow of foreign direct investment resulted largely from a decline in this investment category in 2015 Q2 due to one-off factors, namely the withdrawal of non-residents from a special purpose vehicle; *Balance of payments of the Republic of Poland for 2015 Q2.*

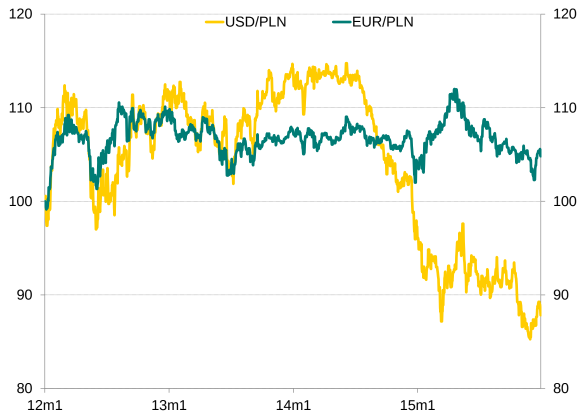
Table 4 Selected external stability indicators in 2004-2015

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Current account balance/GDP (%)	-5.5	-2.6	-4.0	-6.3	-6.7	-4.0	-5.4	-5.2	-3.7	-1.3	-2.0	-0.2
Current and capital account balance/GDP (%)	-5.0	-2.3	-3.4	-5.3	-5.6	-2.4	-3.6	-3.2	-1.5	1.0	0.4	2.1
Balance of trade in goods /GDP (%)	-3.3	-1.8	-2.9	-5.2	-6.5	-2.4	-3.0	-3.5	-2.1	-0.1	-0.8	0.5
Balance of trade in goods and services/GDP (%)	-2.6	-1.0	-2.1	-3.5	-5.1	-0.8	-2.1	-2.2	-0.6	1.9	1.3	2.8
Official reserve assets in terms of monthly imports of goods and services	3.8	4.7	4.0	3.8	3.4	5.2	5.5	5.7	5.5	5.2	5.3	5.3
Foreign debt/GDP (%)	42.0	44.1	46.4	47.9	56.8	58.7	65.5	70.8	70.2	69.8	72.4	71.6
Net international investment position/GDP (%)	-41.1	-42.0	-45.1	-49.3	--56.0	-57.8	-65.1	-62.4	-65.4	-69.0	-68.3	-61.9

Source: NBP calculations based on GUS and NBP data.

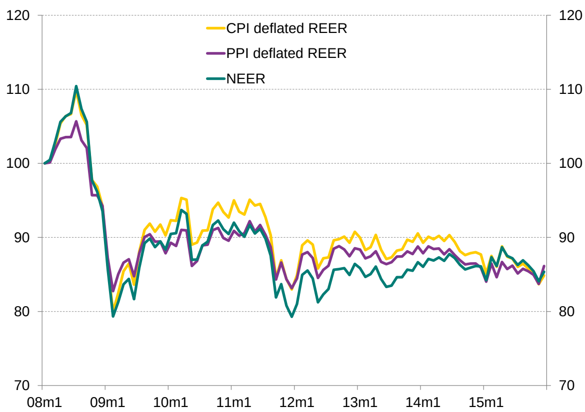
In 2015, the nominal exchange rate of the zloty against the major currencies was largely determined by external factors, especially the monetary policy of the major central banks and changes in risk aversion in the international financial markets (Figure 21, Figure 22). In the first half of 2015, the zloty strengthened against the euro, mainly due to the extension of the asset purchase programme by the European Central Bank. In the second half of 2015, the zloty weakened against the euro, which was related to worsening investor sentiment in the financial markets driven by growing concerns about economic slowdown in China. As a result, the average annual exchange rate of the zloty against the euro remained close to the previous year's level. The exchange rate of the zloty against the US dollar was, however, significantly lower than in the previous year – mainly due to the appreciation of the US dollar in international markets – and reflected the expectations of interest rate increases in the United States. Consequently, the nominal effective exchange rate of the zloty in 2015 was lower than in 2014, which supported the price competitiveness of Polish exports, and thus the surplus of Polish foreign trade.

Figure 21 Nominal effective zloty exchange rate against major currencies in 2012-2015 (January 2012=100)



Source: Bloomberg data.
Increase denotes appreciation.

Figure 22 Real and nominal effective exchange rate in 2008-2015 (January 2008=100)



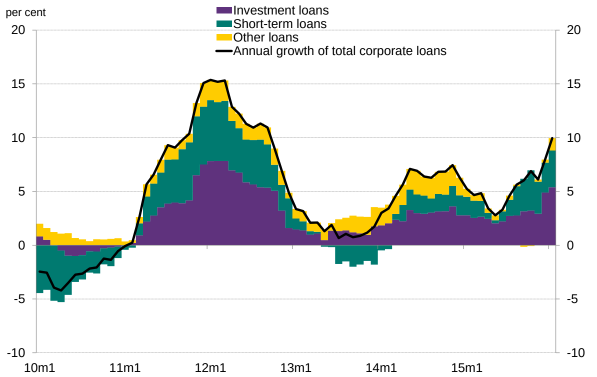
Source: Eurostat, OECD, Reuters data, NBP calculations.
Increase denotes appreciation.

Appendix 5. Money and credit

In 2015, lending to non-monetary entities by monetary financial institutions increased by 5.2% (as compared to 5.5% in the previous year).[17,18] The rise in lending was underpinned by stable economic growth amidst lower interest rates charged on loans than in the previous years and the easing of lending policy by banks, especially in the case of consumer and corporate loans. At the same time, debt growth slowed down as a result of more restrictive lending criteria and lending terms for housing loans, related to macroprudential policy tightening,[19] and a gradual decline in the portfolio of foreign currency denominated housing loans.

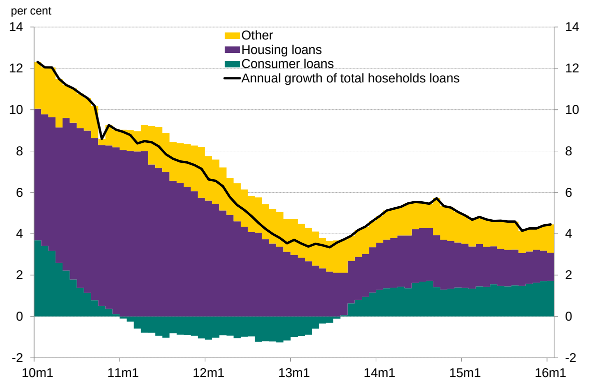
In 2015, lending to the corporate sector accelerated, fuelled by a significant rise in current credit growth and a slight increase in investment credit growth (Figure 23).[20] The rise in corporate lending was supported by the improving conditions in the domestic economy, and in particular – continued growth in corporate investment. Growth in corporate lending also benefited from the easing of lending criteria and lending terms by banks and lower interest rates on corporate loans than in the previous years.[21]

Figure 23 Growth rate of corporate loans and contributions of main components in 2010-2015



Source: NBP data.

Figure 24 Growth rate of household loans and contributions of main components in 2010-2015



Source: NBP data.

[17] Growth rates discussed in this chapter refer to transactional changes. Growth in credit to a particular sector of the economy is defined as growth in receivables of monetary financial institutions from this sector. Debt of non-monetary entities comprises debt of households, non-monetary financial institutions, enterprises, non-profit institutions operating for the benefit of households, local government units and social insurance funds.

[18] The presented growth rates are annual growth rates for private sector loans in 2014 and 2015.

[19] In 2015 banks significantly tightened their lending criteria and some terms of granting mortgage loans, which was mainly driven by a further reduction in the maximum admissible LTV ratios on these loans. In accordance with S Recommendation of the Polish Financial Supervision Authority, since January 2015 the loan value to real estate value ratio (LTV ratio) cannot exceed 90%, i.e. the debtor must pay a down payment of at least 10%.

[20] The average monthly growth rate of current corporate lending in 2015 amounted to 5.2% y/y as compared to the 3.0% in 2014; in the case of investment credit, this growth reached 6.0% y/y versus 5.4% y/y recorded in 2015.

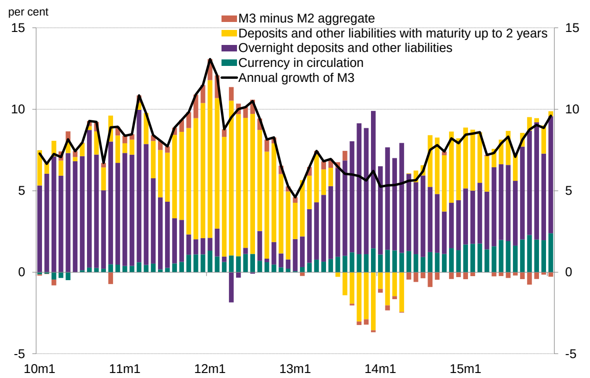
[21] The interest rate of PLN loans to non-financial corporations averaged 3.5% in 2015 as compared to an average of 4.2% in 2014.

The annual growth rate of loans to households slightly decreased in 2015 as compared to the previous year,[22] due to slower growth of housing loans combined with faster growth in consumer loans (Figure 24).[23]

Lending in the mortgage loan segment weakened on account of more restrictive lending criteria and lending terms, including an increase in mortgage margins and higher down payment requirements. At the same time, the decrease in NBP interest rates as well as the extension of the government-subsidized scheme "Flat for the Young" as of September 2015 – to include the purchase of secondary market housing and higher subsidies to down payments under this programme – were acting in the opposite direction.

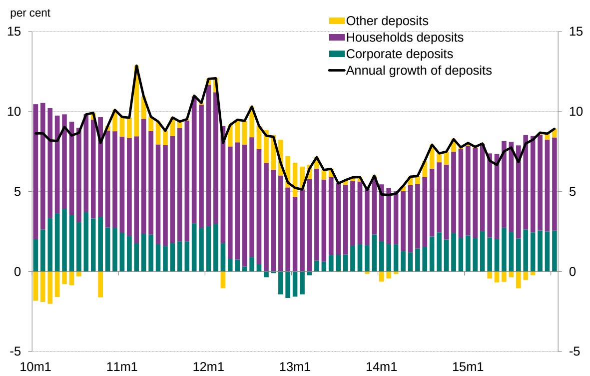
The accelerating growth rate of consumer loans was supported by robust labour market and less restrictive lending policy in this segment. In particular, due to decreased interest rates, banks significantly lowered their interest rates on consumer loans.[24] Moreover, consumer lending was fuelled by the continued improvement in economic situation of households, mainly due to the recovery in labour market amidst rising consumer confidence in 2015.

Figure 25 Annual growth rate of M3 aggregate and contributions of main components in 2010-2015



Source: NBP data.

Figure 26 Annual growth date of bank deposits classified as M3 aggregate and contributions of main components in 2010-2015



Source: NBP data.

Growth in lending in 2015 was accompanied by stable rise in household and corporate deposits, supported by favourable economic conditions in both sectors. As a result, the growth rate of M3 aggregate picked up slightly as compared to 2014, yet remained close to the long-term average

[22] In transactional terms, the total average monthly growth rate of loans to households in 2015 was 4.5% y/y compared to 5.3% y/y in the previous year. However, taking into account changes in the value of loans resulting from changes in valuation or reclassification, including, in particular, changes in exchange rates, the average monthly growth rate of loans to households grew from 5.3% y/y in 2014 to 6.9% in 2015. This was mainly the result of the abandonment of the National Bank of Switzerland's asymmetric exchange rate target in relation to the euro in January 2015, which triggered a sharp appreciation of the Swiss franc against other currencies, including the zloty. Consequently, in January household debt rose by PLN 17.7 billion, i.e. 5.2% of the total debt in the housing loans segment in 2014 (compared to a transaction change of loans in this category of only PLN 0.8 billion).

[23] The average monthly growth rate of consumer loans in 2015 stood at 6.3% y/y compared to 5.8% in the previous year, whereas the average monthly growth rate of housing loans amounted to 3.0% y/y compared to 4.1%.

[24] The interest rates on consumer loans to households averaged 8.6% in 2015 (compared to an average of 12.5% in 2014.). The interest rates on consumer loans must not exceed four times the NBP lombard rate, which in March 2015 was lowered from 3.0% to 2.5%.

(Figure 25).[25] At the same, due to lower interest rates as compared with the previous years, the maturity structure of deposits changed (Figure 26). The lower growth in term deposits was accompanied by accelerating growth in current deposits and stable growth in cash in circulation.

[25] Growth in M3 aggregate in transaction terms stood at 8.9% (in December 2015 as compared to December 2014).

Appendix 6. Minutes of the Monetary Policy Council decision-making meetings

Minutes of the Monetary Policy Council decision-making meeting held on 14 January 2015

Members of the Monetary Policy Council discussed monetary policy decisions against the background of macroeconomic developments in Poland and abroad.

While discussing business conditions in Poland's external environment, Council members emphasized the continued recovery in the United States. In particular, they highlighted the upward revisions of GDP data for 2014 Q3 and the strength of macroeconomic data for 2014 Q4, including, in particular, the sustained employment growth and a further decline in the unemployment rate. A few Council members observed that the recovery in the United States would support global economic activity. Yet, in some Council members' assessment, the economic situation in countries which are Poland's main trading partners continued to be unfavourable. In the euro area, including Germany, the average level of the PMI index in 2014 Q4 had been lower than in the previous quarters. It was argued that in some economies of the euro area, activity growth was being hampered by the measures aimed at reducing the public debt. Furthermore, uncertainty surrounding the outlook for euro area growth was emphasised. A few Council members observed that a recovery in this currency area was delaying, citing the recent downward revisions of GDP growth forecasts for this economy, including those by the European Central Bank. Yet, other Council members were of the opinion that despite the persistently heightened uncertainty in the euro area, driven, among others, by the nearing elections in Greece, GDP growth should accelerate gradually in the following quarters supported by the considerable decline in oil prices. Council members also pointed to the halt in economic growth in Russia in 2014 Q4 and the likelihood of a marked GDP decline in this economy in 2015. On the other hand, a few Council members emphasised that economic activity in many other countries of the Central and Eastern European region remained stable.

Members of the Council highlighted further substantial decline of oil prices observed in the recent period, leading to lower inflation and inflation forecasts in many economies. It was noted that deflation was observed in the euro area in December and the ECB had markedly revised downward its inflation forecasts for 2015. It was assessed that under these circumstances the announcement of new quantitative easing programmes by the ECB was likely as early as in January 2015. Council members also pointed to the likelihood of forthcoming interest rate rise in the United States, which would probably support an inflow of portfolio capital to the US economy.

Heightened risk aversion that had prevailed recently in the financial markets was pointed out. As expectations of an interest rate rise in the United States had been mounting, the US dollar had gained considerably, while emerging market currencies, including the zloty, had weakened. Yet, it was emphasised that the decline in the zloty exchange rate vis-à-vis the euro was much smaller than that vis-à-vis the dollar. A few members of the Council argued that the zloty had weakened partially on the back of the slump of the rouble. It was further pointed out that the currencies of Poland's other trading partners had depreciated much more than the zloty. As a result, the nominal effective exchange rate of the zloty had been stronger in December than in the month before.

While analysing the conditions in the real economy in Poland, Council members assessed that GDP growth could have weakened somewhat in 2014 Q4. Yet, some Council members were of the opinion that despite this likely slowdown, GDP growth remained stable and forecasts pointed to its gradual rebound in the following quarters. Against this background, those Council members argued that the observed decline in global oil prices would support domestic demand as well as – through higher GDP growth abroad – Polish exports. As a result, economic growth in Poland might prove to be stronger than previously forecasted. Other Council members believed that GDP growth in the second half of 2015 would be propped up by higher inflow of European Union funds. Pointing to the relatively strong outlook for demand in the Polish economy, a few Council members observed that the financial situation of enterprises continued to be sound, fuelled by low oil prices. Investment kept on rising at a robust pace, supported by low credit cost, while forecasts of orders and production were above their long-term average. They also argued that corporate lending was rising, and money supply in the real terms expanded at the highest pace since the onset of the global financial crisis. They also assessed that corporate business climate indicators had stabilised and that household sentiment was improving.

However, some Council members pointed out that the pace of GDP growth did not ensure fast closure of the output gap and there were no signs of a marked pick-up in the economic activity in the following quarters. A few Council members emphasised the risk of a substantial slowdown in GDP growth. In this context, it was argued that industrial production growth had decreased close to zero in November, while construction and assembly output had continued to contract and retail sales growth had weakened. Some Council members pointed out that domestic economic conditions were being adversely affected by the delay of recovery in the euro area and by the slump in activity in Russia. It was emphasised that a further tightening of the macroprudential policy at the beginning of this year would probably limit mortgage lending growth. A few Council members also drew attention to the fact that in recent quarters, domestic demand had been supported by a considerable rise in inventories, which could have resulted from shortage of demand for already produced goods. This could result in lower production growth in the future.

While analysing labour market conditions, sustained corporate employment growth was highlighted, as well as the declining seasonally adjusted unemployment rate. A few Council members also pointed to business climate surveys suggesting further growth in corporate employment. At the same time it was pointed out that no signs of wage pressure had been observed in the corporate sector, and that wage growth in the government sector was being curbed by the wage fund freeze in this sector.

When discussing inflationary processes in Poland, Council members pointed to the possibility of deflation continuing longer than previously expected. It was also emphasized that price growth forecasts for the following quarters had been revised downwards in the recent period. As a result, deflation might persist for another few months, and the horizon of inflation returning to the NBP inflation target might get longer.

Some members of the Council emphasized, however, that deflation was primarily due to lower prices of commodities. Those members assessed that for this reason deflation was conducive for domestic demand growth, as it supported wage growth in real terms and increased the ability of economic agents to service debt, thus supporting the economic upturn. They pointed to the fact that the decline in energy prices boosted the sentiment of most economic agents. A few members of the Council emphasized that an extended period of slow price growth was currently a feature of many economies.

Some members of the Council highlighted, however, that the observed decline in prices was not only driven by falling commodity prices, but also by negative output gap in the economy. In their opinion, this was reflected by the lowest in history and negative average of core inflation measures as well as the continued negative growth rate of producer prices. Those members of the Council also indicated that most retail sales deflators were negative, and the growth of prices of services – which were most responsive to domestic demand pressure – had followed a downward trend for many quarters. It was pointed out that deflation led to expectations of households and enterprises running consistently at very low levels, and that inflation expectations of analysts for the following two years were below the inflation target.

While discussing the NBP interest rates, the majority of the members of the Council judged that they should remain unchanged at the current meeting. The majority of the members of the Council expressed the opinion that leaving interest rates unchanged at the current meeting was justified by the heightened risk aversion in the international financial markets, resulting, inter alia, from the foreign exchange crisis in Russia.

Some members of the Council who were in favour of keeping the interest rates unchanged pointed out that the prolonged deflation resulted from supply shocks, hence was beyond the direct impact of the domestic monetary policy. It was also pointed out that the observed decline in commodity prices supported economic activity. A few Council members assessed that a further reduction in interest rates – amidst domestic demand growth exceeding, in their opinion, potential GDP growth – could lead to excessive lending growth and an increase in the current account deficit, which was currently curbed by a significant drop in import prices. They also argued that a possible increase in interest rates abroad might worsen the income balance on the current account. Those members of the Council also pointed out that currently the NBP interest rates were at historically low levels, and their further lowering would inhibit corporate restructuring and curb potential economic growth. Some of the members of the Council observed that slow price growth was typical for many economies, and the experience of other central banks showed that under the current conditions interest rate cuts might fail to bring inflation to the target. Some members of the Council also judged that the expected acceleration in the growth of prices would bring about a decline in real interest rates.

Yet, some Council members assessed that it might be justified to adjust the NBP interest rates in the coming months. Those members emphasized that the period of deflation and the time horizon of inflation returning to the target were extending. They also assessed that the incoming data pointed to a risk of a slowdown in economic activity, and sluggish economic growth persisted in the external environment of the Polish economy. They indicated that continuing deflation boosted real interest rates, which were now relatively high in Poland both in historical terms and when compared with other economies. The possibility of the ECB's further easing of its monetary policy was also emphasized. A few of those members of the Council also pointed out that interest rates on loans to the private sector were higher than the nominal GDP growth. In real terms they were higher than the profitability of enterprises, and so – in the opinion of those Council members – did not pose a risk of excessive debt growth nor inhibit corporate restructuring. Those members also pointed out that due to the limited array of monetary policy tools, corporate restructuring should be supported primarily by structural policy. A few members of the Council who did not rule out an adjustment of interest rates in the coming months, underlined that the potential need to adjust monetary policy could be assessed better after the possible measures of the ECB had been evaluated and the new projection of inflation and GDP had been released.

A few Council members assessed that due to the continuing decline in prices, extended period of inflation returning to the target as well as the risk of a slowdown in GDP growth in the coming quarters, interest rates should be cut already at the current meeting. In their view, lower NBP interest rates would not only boost economic activity, but also – in the absence of inflationary threats – would help to reduce the cost of public debt servicing, which would support the government's economic policy. Given these arguments, a few of those members of the Council were in favour of a considerable cut in interest rates.

At the meeting a motion to cut the NBP interest rates by 1.00 percentage point was submitted. The motion was rejected. A motion to lower the NBP interest rates by 0.25 percentage points was submitted. The motion was rejected. The Council decided to keep the key interest rates at the following levels: the NBP reference rate at 2.00%, the lombard rate at 3.00%, the deposit rate at 1.00%, the rediscount rate at 2.25%.

Minutes of the Monetary Policy Council decision-making meeting held on 4 February 2015

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

While discussing business conditions in Poland's external environment, some Council members pointed to the lack of significant improvement in the economic situation of Poland's main trading partners. It was noted that in the euro area economic activity remained weak compared with other developed countries. In addition, some Council members assessed that an upturn in the euro area economy would be limited by sluggish growth in investment, partly driven by the forecasted weakening of demand growth in the emerging markets. These Council members also highlighted the deteriorating situation of Poland's eastern trading partners. In particular, it was noted that in Russia economic growth had slowed down to near zero in 2014 Q4, with recession forecasted in 2015, which might be further deepened by the renewed escalation of the conflict in Ukraine. Yet, other Council members pointed out that in the euro area GDP growth was forecasted to speed up in 2015. They expressed the opinion that accelerating consumer demand – supported additionally by the fall in oil prices – would translate into a more marked recovery in the euro area economy in the next quarters than previously observed. It was also pointed out that GDP growth in the United States – despite a slowdown in 2014 Q4 – remained high compared to other developed countries, and that the prospects for the US economy were favourable. It was noted that economic activity there would most likely remain markedly stronger than in the euro area, which was primarily the result of smaller scale of regulation and lower taxes in the US economy. At the same time, few members of the Council expressed the opinion that the expected acceleration of GDP growth in the United States in 2015 might fail to materialize, as indicated by the slowdown in GDP growth in 2014 Q4.

Members of the Council highlighted the fall in prices of a large group of commodities in the recent period, which – amidst moderate global economic growth – had resulted in a decline in inflation in many countries. At the same time, it was emphasised that the fall in commodity prices would help to stimulate economic activity in countries that are net commodity importers. Few Council members pointed out that oil prices had increased somewhat in recent days and noted that the changes in commodity prices were an important source of uncertainty about economic activity and inflation developments in the global economy.

With regard to monetary policy in Poland’s external environment, it was highlighted that – in response to the deepening deflation and persistently slow economic growth in the euro area – the European Central Bank (ECB) had significantly extended its asset purchase programme by adding sovereign bonds. When discussing the possible effects of the ECB’s quantitative easing, some of the Council members expressed the opinion that its impact on the real economy might be limited. According to them, an increase in liquid reserves in banks in the euro area might fail to significantly stimulate lending activity, including loans for investment purposes. They noted that the low growth in corporate lending was related to the continued uncertainty about the future economic situation in the euro area and – therefore – the financing cost had little influence on demand for credit. This was indicated, according to few Council members, by persistently falling value of corporate loans in the euro area despite decreasing interest rates on corporate loans in recent months. Some of the Council members assessed that declining yields on debt instruments in the euro area would be the main effect of the ECB’s activities. Few Council members expressed the opinion that declining yields on assets and interest rates on deposits in the euro area could increase the propensity of some households to save, so that the growth in savings, and thus future consumption, would remain at a constant level, which, consequently, might limit current consumption. At the same time, some Council members pointed out that the ECB’s quantitative easing might increase the inflow of portfolio capital to non-euro area economies, including Poland, causing exchange rate appreciation pressures.

Council members also discussed the decision of the Swiss National Bank to remove the Swiss franc asymmetric peg against the euro and reduce its interest rates. In this context, it was pointed out that currently it is not possible to assess in full the consequences of the Swiss franc appreciation for Polish economic agents with franc-denominated liabilities, due to the high volatility of the zloty against the franc and the unknown reaction of the banking sector and supervisory and regulatory authorities to this situation. Few Council members noted, that persisting weak exchange rate of the zloty against the Swiss franc would exacerbate the problems with repayment of the franc-denominated debt and would deteriorate banks’ asset structure.

While discussing the business climate in Poland, Council members pointed out that GDP growth in 2014 Q4 had slowed down slightly, remaining above 3%. Members of the Council emphasised a higher growth of industrial production, construction and assembly, and retail sales in December, as well as an increase in some business climate indicators and a further improvement in labour market conditions. Some Council members assessed that despite a slight slowdown, GDP growth was at a level similar to that of the potential output. Few Council members pointed out that growth in domestic demand in 2014 Q4 – despite the negative contribution of inventories to GDP growth – was above the expectations and higher than the growth of the whole GDP. In the opinion of these Council members, the continued high growth of domestic demand contributed to the widening of the current account deficit, the size of which is currently lowered by the fall in commodity prices and the related improvement in the terms of trade. Other Council members assessed, however, that although GDP continued to grow at around 3%, the output gap in Poland remained negative.

While discussing the prospects for economic growth, some Council members emphasised that in the following quarters economic growth in Poland would gradually pick up. These members argued that a further increase in employment, amidst moderate growth in wages and an improvement in consumer confidence indicators, would be conducive to continued high growth in consumer demand. According to these Council members, investment demand would, in turn, be supported by a further fast growth in investment expenditure of enterprises, and in the second half of 2015 also by an acceleration in infrastructure investment financed from EU funds. Few Council members emphasised that the favourable prospects for corporate investment activity were largely the result of a growing propensity of enterprises to invest driven by falling perceived uncertainty in their environment, increasing capacity utilisation and an improvement in the demand forecasts, alongside favourable financing conditions. Some Council members pointed to the forecasted acceleration in GDP growth in the euro area as an additional source of the economic upturn in Poland.

Other Council members expressed the opinion that even if GDP growth accelerated gradually in the following quarters, it would not lead to a build-up of imbalances in the economy. Few Council members also pointed to the risk of a slowdown in growth at the end of 2015 and at the beginning of 2016. It was noted that the rise in consumer demand would be limited by an increase in the Swiss-franc denominated debt of households. In turn, in the opinion of few Council members, growth in investment outlays of enterprises might be adversely affected by continued uncertainty about demand and their low expected profitability compared to the yields on alternative forms of savings allocation. Against this background, few Council members pointed to the persistence of the low contribution of investment to GDP growth and the small percentage of enterprises planning to start new investments. Some Council members were of the opinion that the main source of risk for acceleration of economic activity in Poland was the possibility of lower than expected GDP growth in the euro area. Few Council members also noted that the possible appreciation of the zloty could adversely affect GDP growth.

While discussing the inflationary processes in Poland, it was pointed out that in January the annual consumer price index had fallen once again and was below the expectations. At the same time, the short-term inflation forecasts had been significantly revised downwards, and the expected period of deflation had been extended. In addition, an acceleration in the decline in producer prices was noted. Some Council members expressed the opinion that the deflation in Poland was mainly driven by external factors, primarily the decline in commodity prices. They noted that the extension of the expected period of deflation was the result of a downward revision of the forecasted paths for energy and food prices. In the opinion of these Council members, the deflation – as it was supply driven – would not have adverse economic effects. On the contrary, it would support GDP growth, by stimulating an increase in the purchasing power of incomes. Few Council members noted that there are currently no signals indicating a risk of deflationary spiral. Few Council members also expressed the opinion that the low price growth – amidst moderate economic growth in Poland's external environment and a fall in commodity prices – was a normal phenomenon, and taking into account the expected persistence of these developments, inflation would most likely remain low also in the long-term.

Some Council members, in turn, were of the opinion that the decline in prices in Poland was not only a result of external factors, but was also due to low demand pressure in the domestic economy. In their opinion, this was indicated by both the further decline in the majority of core inflation measures and the fact that producer prices had been decreasing for almost three years, thus much longer than the fall in commodity prices in the global markets. These Council members also emphasised that against the background of a sustained fall in prices, inflation expectations of households and enterprises remained very low, while the expectations of analysts had recently been significantly revised downwards. Moreover, these Council members were of the opinion that the longer the period of deflation, the higher the risk of its adverse effects for the economy.

Referring to the level of interest rates, some Council members emphasised that although nominal interest rates had been lowered in 2014 Q4, deepening deflation and the strong downward revision of price growth forecasts had led in recent months to an increase in interest rates in real terms, driving them to relatively high levels. They also pointed to the record low yields on long-term bonds, indicating that in the long-term inflation or the equilibrium real rate would be markedly lower than to date. However, other Council members noted that nominal rates were at record lows, and real rates would decline along with forecasted rise in price growth.

While discussing the decision on NBP interest rates, the majority of the members of the Council judged that they should remain unchanged at the current meeting.

Some of the Council members pointed out that GDP growth was currently close to that of the potential output and its acceleration was forecasted in the following quarters. Moreover, these members argued that deflation in Poland was mainly supply driven and – as a consequence – did not have a negative impact on the economy, while the influence of monetary policy on inflation processes was limited. Few Council members were of the opinion that against the background of sustained high growth in domestic demand, a lowering of interest rates could result in a build-up of external imbalances and lead to excessive growth of credit, including housing credit, and expose the borrowers to significant rise in debt servicing costs in case of interest rates increase. Excessive credit growth could also create the risk of real estate bubble. These Council members expressed the opinion that further adjustment of interest rates – while reducing the cost of servicing the public debt only temporarily – could lead to increased instability of public finance in the future. At the same time, in the opinion of these Council members, maintaining nominal interest rates at low levels has an adverse effect on the process of selection of economic agents and thus limits the productivity growth in the economy.

However, some Council members pointed out that deepening deflation and its longer duration increased the risk of inflation remaining below the target in the medium term and therefore justified interest rate cuts. In addition, they noted that the risk of negative consequences of deflation for the economy rose along with its duration. These members judged that the persistence of a significant interest rate differential between Poland and its external environment, amidst a strong easing of monetary policy by the ECB, increased the risks of an inflow of portfolio capital and excessive strengthening of the zloty exchange rate, which would additionally hinder the return of inflation to its target and could weaken GDP growth. Few members of the Council also emphasised that interest rate cuts – in the absence of inflation risk – would lead to a reduction in public debt servicing costs, and thus support the government's economic policy. Moreover, few members noted that the adjustment of interest rates would make the deleveraging of economic agents easier and could also support the process of currency conversion of housing loans. However, some Council members judged that due to the significant volatility in the financial markets in the recent period, it was justified to leave interest rates unchanged at the current meeting. Yet, these members did not rule out an adjustment of monetary policy in the nearest future, when evaluation of inflation prospects in the medium-term would be possible, taking into account NBP's March projection.

Few Council members assessed that despite a significant volatility in the financial markets, the extension of the period of falling prices and the low likelihood of significant GDP growth in the coming quarters, posing the risk of macroeconomic imbalances, justified the lowering of interest rates already at the current meeting. These members indicated that in view of the above developments, the lack of a decision on easing monetary policy might lead to growing uncertainty in the economy.

At the meeting a motion to cut the NBP interest rates by 0.25 percentage points was submitted. The motion was rejected. The Council decided to keep the key interest rates at the following levels: the NBP reference rate at 2.00%, the lombard rate at 3.00%, the deposit rate at 1.00%, the rediscount rate at 2.25%.

Minutes of the Monetary Policy Council decision-making meeting held on 4 March 2015

Members of the Monetary Policy Council discussed current and future monetary policy decisions against the background of recent macroeconomic developments in Poland and abroad as well as the March projection of GDP and inflation.

While discussing developments in Poland's external environment, the Council members pointed to a recent decline in price volatility for most instruments in the international financial markets. However, some Council members indicated that uncertainty in the financial markets prevailed due to geopolitical situation in Ukraine and the risk of Greek debt restructuring. Also weak economic outlook in the euro area, Japan and in the largest emerging market economies, particularly China, remained a source of uncertainty.

Referring to economic conditions abroad, the Council members drew attention to the stable economic growth in the United States. They noted nonetheless that, despite a slight acceleration, economic growth in the euro area remained low. It was emphasised that lending growth in the euro area was still close to zero. Some Council members noted that GDP growth forecasts for the euro area had been revised upwards. It was mentioned that an acceleration in economic growth in Germany, a fall in oil prices, a reduction in fiscal tightening, a launch of the European Commission's strategic investment plan and an increase in the pace of quantitative easing by the ECB starting from March 2015 could all contribute to higher economic growth in the euro area.

Discussing about the potential efficiency of the ECB's quantitative easing, few Council members pointed out that over the course of similar programmes in the United States and Great Britain the bond yields had been falling. The resultant decline in credit costs and depreciation of the currencies had in turn translated into an increase in economic growth. Few Council members also underlined that the pace of recovery of the US and British economies had been much faster than in economies where monetary policy had been more restrictive at that time, including the euro area. They also noted that in case of the countries of significant interest rates spread to the euro area, the risk of portfolio capital inflows and an appreciation of their currencies had increased due to the ECB's quantitative easing. Few Council members underlined that the additional liquidity from quantitative easing programmes in the United States and Great Britain, had been passed onto the real economy only to a limited extent. Therefore, in their opinion, the programmes had failed to stimulate economic activity. According to these Council members, quantitative easing in the United States had distorted asset prices, and thus resulted in re-emergence of imbalances in this economy. They indicated that despite quantitative easing programmes, the recovery of the US economy, though faster than in the euro area, was still the slowest since the World War II. They pointed out that it was greater flexibility of the US and British economies that contributed to the relatively fast recovery in these countries following the global financial crisis.

With reference to monetary policy in other economies, some Council members pointed out that it had recently been eased in many economies, particularly in Europe. They also noted that the Fed had been indicating that it might not start to tighten its monetary policy soon, as inflation had fallen, there was no wage pressure in the economy and the US dollar had strengthened.

While discussing inflationary developments abroad, it was highlighted that the price growth had fallen in many countries over the recent months, and it was negative in the majority of European Union member states. Few Council members were of the opinion that the fall in oil prices could have come to an end. At the same time, the majority of Council members assessed that oil prices would remain markedly lower than in previous years. Moreover, due to the structural changes in oil supply, the upward pressure on its price will likely remain low. The Council members also noted that prices of many non-energy commodities, particularly agricultural commodities, had continued to fall.

While discussing the business climate in Poland, it was pointed out that GDP growth in 2014 Q4 had decelerated slightly, but remained above 3%. It was highlighted, that GDP growth in 2014 Q4 had been still supported mainly by domestic demand, as consumption growth had been stable while investment growth in spite of a slight deceleration, had been high. However, some Council members stressed that the uncertainty about demand prospects prevailed, particularly in relation to external demand. These members also highlighted that data on the economic activity in January and the indicators of economic conditions in February had been mixed. It was pointed out that industrial production and retail sales growth had slowed down in January. At the same time, in February, indices of sentiment in industry were above expectations and suggested a pick-up in activity and an increase in employment in this sector. Some Council members also noted that the NBP business climate surveys were indicating a favourable outlook for corporate investment, demand and employment. They pointed to sound financial position of the enterprise sector, which had been allowing enterprises to finance their investments with their own funds. In the opinion of few Council members, reliance on own funds in investment financing could lead to some decline in lending to enterprises in early 2015, despite easier corporate lending conditions. In the assessment of some Council members, the fall in oil prices in the previous months could have improved the financial position of enterprises. In addition, they pointed out that the fall in oil prices had supported real disposable personal income and private consumption, in addition to further improvement in the labour market conditions, including continued growth in employment. Few Council members indicated that the improvement in the outlook for household finances also had been translating into ongoing recovery in the housing market in Poland and, consequently, an increase in activity in the housing construction sector. Few Council members assessed, however, that domestic demand growth caused by an improvement in terms of trade related to the fall in oil prices might lead to greater external imbalances if oil prices increase.

Discussing the economic growth outlook in the context of the March projection, it was noted that in line with the projection GDP growth was to remain stable in the following quarters, increasing slightly, while in the whole projection horizon it should run between 3 and 4%. Stable GDP growth should result – in light of the projection – from stable increase in consumption and investment growth staying high, despite some weakening in 2016. In the opinion of few Council members, investment growth could, however, be lower than the central projection path due to weak industrial production growth in recent months and uncertainty about the economic outlook abroad. The lower than expected investment growth could, in turn, translate into weaker than currently expected GDP growth in the coming quarters or even further economic slowdown. However, other Council members stressed that the March GDP projection was slightly higher than the November projection. They assessed that investment growth could be faster than the central projection path due to more efficient absorption of EU funds than assumed in the projection.

Discussing inflationary developments in Poland, it was highlighted that in January annual growth in consumer prices had fallen again. Some Council members expressed an opinion that deflation in Poland was mainly driven by external factors, including, above all, the fall in commodity prices. Therefore, deflation will not have negative economic consequences, but rather will support GDP growth, as it will improve the purchasing power of households and financial position of enterprises. At the same time, some Council members were of the opinion that low price growth in Poland resulted not only from external factors, but also from subdued domestic demand pressure, as indicated by a negative level of most core inflation measures, an extended period of a fall in producer prices and a negative GDP deflator in 2014 Q4.

Discussing the outlook for inflation, it was stressed that according to the March projection, under an assumption of constant interest rates, CPI inflation – despite steady increase in the following quarters – would not return to the target over the projection horizon. Similarly, core inflation, net of food and energy prices, was forecasted to run below the inflation target at the end of the projection horizon. In addition, some Council members pointed out that the output gap would most likely remain negative over the projection horizon. The Council members also noted that the March projection indicated no wage pressure, as labour productivity was expected to increase faster than wages. However, few Council members indicated that falling prices in the global commodity markets could temporarily mask the wage pressure, as they increased real wage growth and disposable household income. In their opinion, a steady increase in the relation of job vacancies to the number of the unemployed shows that nominal wages may accelerate when the impact of falling oil prices fades out.

Referring to the level of interest rates in Poland, some Council members emphasised that deepening deflation and further downward revisions of price growth had resulted in an increase in real interest rates. Few of them pointed out that the high level of real interest rates could contain investment projects in the real economy due to a lower rate of return compared to capital investments. Other Council members emphasised that in connection with the real convergence of the Polish economy with the euro area, the level of interest rate consistent with the macroeconomic equilibrium in Poland had most likely declined over the recent years.

However, few Council members indicated that the level of real interest rates in the economy was consistent with the current pace of economic growth and macroeconomic equilibrium, helping to prevent external imbalances and excessive credit growth, or might be even too low for current conditions. In the assessment of few Council members, the level of real and nominal interest rates could be too low also according to the March projection of GDP and inflation, which indicates that the current account deficit should grow under an assumption of constant interest rates. Moreover, these members stressed that nominal rates in Poland were at historical lows, also compared to the advanced economies before the global financial crisis. They also emphasised that the real interest rates would decline as the price growth resumes to increase in accordance with the projection.

Discussing the decision on NBP interest rates, the majority of the Council members judged that they should be lowered at the current meeting. They pointed out that since the previous meeting, volatility in the financial markets, including the currency markets, had diminished. They underlined that the results of the March projections of inflation and GDP confirmed the assessment that the level of interest rates was too high to support a return of inflation to the target in the following years. They pointed out that in the light of the March projection, assuming that interest rates remained unchanged, inflation would not return to the target, while the output gap would remain negative over the projection horizon. They also pointed to the growth in interest rate spread in relation to Poland's immediate environment, which could be conducive to an increase in foreign capital inflows and an appreciation of the zloty. This would amplify deflation and delay the return of inflation to the target. Few Council members underlined that the interest rate cut would also reduce costs of public debt service, thus supporting the government's economic policy.

While discussing the scale of interest rate reduction and their desired level in the current cycle, the majority of Council members judged that interest rates should be adjusted on a single occasion so that the scale of the reduction would be significant and enough to contain the uncertainty about future monetary policy. These members were also of the opinion that a significant one-off reduction in interest rates should come along with an announcement that this decision concluded the monetary policy easing cycle. The majority of Council members judged that such an announcement would not prevent an adjustment in interest rates in an event of unexpected strong shocks in the Polish economy or its environment.

In turn, some Council members were of the opinion that interest rates should remain unchanged. These members argued that deflation in Poland resulted mainly from supply factors and, consequently, did not impair the economy, while monetary policy currently had a limited impact on inflationary processes. They pointed out that according to the March projection, a reduction in interest rates in the first half of 2015, in line with the market expectations, would not result in such an increase in inflation that would be sufficient to ensure its return to the target. At the same time, according to the March projection, a reduction in interest rates could widen external imbalances. In addition, in the opinion of Council members who were in favour of keeping the monetary policy parameters unchanged, a reduction in interest rates could lead to an increase in financing of unprofitable investments. In such an event, a relatively high percentage of non-performing loans in Poland could lead to a deterioration in the financial situation of the banking sector.

At the meeting a motion to cut NBP interest rates by 0.50 percentage points was submitted. The motion passed. A motion was also submitted to reduce NBP interest rates by 0.25 percentage points. This motion was not voted on due to the adoption of the motion to reduce NBP interest rates by 0.50 percentage points. The Council decided to reduce the key NBP interest rates by 0.50 percentage points to the following levels: the NBP reference rate to 1.50%, the lombard rate to 2.50%, the deposit rate to 0.50%, the rediscount rate to 1.75%.

Minutes of the Monetary Policy Council decision-making meeting held on 15 April 2015

Members of the Monetary Policy Council discussed the monetary policy against the background of current and expected macroeconomic developments in Poland and abroad.

While discussing the situation in Poland’s external environment, Council members indicated that 2015 was expected to bring a slight acceleration in global economic growth. It was pointed out that the incoming data suggested an improvement in economic conditions in the euro area, and data from the credit market might signal the beginning of rebound in lending. It was argued that according to the current forecasts, GDP growth in the euro area in 2015 was likely to exceed the previous year’s level. Certain members of the Council emphasized that in the coming quarters economic activity growth in the euro area might be supported by the launch of the EBC’s quantitative easing programme, the resulting depreciation of the euro, as well as the start of the investment programme of the European Commission. In the United States, despite the projected decline in GDP growth in the first quarter, recovery is expected to continue over the remaining part of the year.

However, some Council members pointed out that the scale of recovery in the euro area would be limited by the persistently weak investment demand and relatively high unemployment. As a result, GDP growth in the euro area – despite a certain pick-up – would remain low as compared to other developed countries. Certain Council members also expressed the opinion that excessive growth in demand in German economy, amidst highly expansionary monetary policy of the ECB, constituted a risk factor for economic growth in the euro area in the long term. Moreover, those members pointed out that insufficient structural reforms in France and Italy might have a dampening effect on long-term growth in the euro area. Some members of the Council emphasized that also in the United States the rebound in economic activity was weak as compared to the previous business cycles. Lower GDP growth in the US economy resulted from weak investment growth and slower productivity growth. According to certain members of the Council, this was driven by corporate restructuring hampered, among other things, by interest rates kept by the Fed at historical lows. Other Council members expressed the opinion that the impact of interest rates on corporate restructuring was limited, and its intensity was determined mainly by institutional factors.

Referring to the situation in the emerging economies, it was pointed out that economic conditions in China continued to deteriorate gradually, and forecasts indicated a further slowdown in GDP growth in 2015. It was also emphasized that the situation of Poland’s eastern trading partners remained unfavourable, with recession forecasted for Russia and Ukraine in 2015. Certain Council members pointed to a possible outflow of capital as a risk factor for the emerging economies, especially those experiencing less favourable macroeconomic conditions.

At the meeting attention was drawn to the stabilization of prices in the international commodity markets. Certain members remarked at that point that oil prices, following a strong decline, had increased slightly since the beginning of the year. In the recent period, also declines in the prices of agricultural commodities and industrial metals had come to a halt. This contributed to the weakening of disinflationary forces in many countries, and hence easing of deflation in the euro area and the stabilization of prices in the United States. The growth of prices in the global markets continued to be very slow, and remained negative in most European Union countries.

With reference to monetary policy in Poland’s external environment it was pointed out that it had recently been eased by many central banks. The ECB had launched a Treasury bond purchase programme, and conducted another TLTRO operation on a larger-than-expected scale. It was also emphasized that the Fed had ruled out interest rate hikes in the next two months, while still signalling tightening its monetary policy this year.

When analysing the situation in real economy in Poland, it was pointed out that the incoming data confirmed continued stable growth in economic activity. Some Council members expressed the view that GDP growth in 2015 Q1 had probably slightly picked up as compared to the previous quarter. It was estimated that economic activity was fuelled by sustained growth in domestic demand. In this context, attention was paid to the still sound financial situation of companies – despite some deterioration in 2014 Q4 – and a stable rise in corporate lending, which further boosted corporate investment activity. Consumer demand continued to be supported by growing real income of households amid rising employment, and a further increase in consumer loans. Certain Council members pointed out, however, that although the situation in the labour market remained good, both employment and nominal wage growth in the enterprise sector had slowed down. Other members emphasized that unemployment – despite a gradual decline – stayed relatively high and nominal wages continued to be low as compared to most European countries. Council members also pointed out that weak growth of foreign demand, notwithstanding its slight acceleration, remained a factor curbing GDP growth in Poland in the first quarter.

While discussing the outlook for economic growth, most members of the Council assessed that GDP growth in the coming quarters would gradually accelerate with consumption and investment remaining its key drivers. Moreover, along with economic recovery in the euro area GDP growth in Poland would be increasingly supported by rising exports. Certain members of the Council assessed that GDP growth was likely to be higher than anticipated in the March projection; this might be driven by faster improvement in the labour market, which, together with stronger rebound in economic activity abroad, would be conducive to stronger growth in consumption and private investment. Some Council members were of the opinion that also the increase in public investment might be higher than projected due to faster absorption of EU funds. Certain Council members believed, however, that GDP growth in 2015 might be slightly lower than projected, which – in their opinion – could be driven by a slowdown in corporate investment. According to certain members of the Council, also the positive supply shocks waning faster could lead to GDP growth slower than projected; this would, at the same time, contribute to the build-up of external imbalances. It was pointed out that GDP growth in the coming quarters might be additionally constrained by an excessive appreciation of the zloty. Some Council members observed that the impact of the ECB's quantitative easing on the real economy in the euro area and on asset prices within and outside the euro area continues to generate uncertainty about future economic conditions in Poland. Some Council members pointed out that the assessment of Poland's economic outlook is obscured by the uncertainty related to future geopolitical situation in Ukraine, the timing of the monetary policy tightening by the Fed, and the risk of turmoil related to the situation in Greece. Certain Council members also considered the current situation to involve a high risk of shocks in the international financial markets as a result of the sustained expansionary monetary policy by major central banks. Other Council members emphasized the absence of imbalances in the domestic economy, pointing to a stable situation in the real estate market, a relatively low private and public debts, a small deficit on the current account and a safe level of Poland's foreign indebtedness.

Discussing inflation developments in Poland, it was indicated that annual price growth in February had decreased again and was running below expectations. At the same time, it was pointed out that while short-term inflation forecasts had been revised downwards, the expected period of deflation had remained unchanged. Some Council members highlighted that deflation in Poland was mainly driven by external factors, including, in particular, declining prices of energy and food commodities. As deflation was primarily caused by supply-side factors, in the opinion of those members of the Council, it was boosting households' purchasing power and reducing corporate costs, thus supporting domestic economic growth. In turn, some Council members were of the opinion that apart from external factors, weak price growth in Poland was underpinned by the absence of demand pressure, as indicated by the negative readings of most core inflation measures and the steady decline in producer prices. They also emphasized persistently limited wage pressure despite a gradual improvement in the labour market.

Addressing the prospects for inflation, members indicated that both the March projection and short-term forecasts envisaged price growth to remain negative in the following months, albeit the pace of this growth would gradually pick up, to turn positive by the end of the year. Some Council members represented the opinion that price growth would be higher than indicated in the March projection, and certain members expected inflation to return to the target as early as next year. It was pointed out that the waning effect of the decline in global commodity prices would contribute to the weakening of deflationary trends. Certain Council members indicated at this point a possibility of a rise in oil prices this year which might additionally drive up consumer price growth. Certain Council members voiced the opinion that as supply shocks wore away, the wage pressure might increase, which – according to those Council members – was currently disguised by the rise in the purchasing power of households' disposable income due to a decline in energy and food prices. The increase in wage pressure and accelerated growth of nominal wages would be supported – in the opinion of those Council members – by the situation in the labour market, which was favouring job seekers, as indicated by the high proportion of vacancies in relation to the number of the unemployed. Yet, other Council members believed that growth of wages in the coming quarters would be close to that of labour productivity, with wage pressure remaining limited. Some Council members pointed out that the appreciation of the zloty, especially amidst an extended period of low inflation abroad, might also exert downward pressure on price growth.

Council members drew attention to some appreciation of the exchange rate of the zloty in the past quarter, which was supported by ECB's quantitative easing. Some Council members observed that the appreciation of the zloty might constrain the competitiveness of Polish exports.

Council members assessed that price growth in the nearest quarters would remain negative, mainly due to prior sharp price declines in commodity markets. At the same time, as the effects of those shocks waned, price growth would gradually increase. This would be additionally supported by both the sustained economic recovery at home and an improvement in economic conditions abroad, which – together with the prior adjustment of monetary policy – would limit the risk of inflation continuing below the target in the medium term.

The Council decided to keep the basic NBP interest rates unchanged: the reference rate at 1.50%, the lombard rate at 2.50%, the deposit rate at 0.50% and the rediscount rate at 1.75%.

Minutes of the Monetary Policy Council decision-making meeting held on 6 May 2015

Members of the Monetary Policy Council discussed the monetary policy in the context of the current and expected macroeconomic developments in Poland and abroad.

While discussing the situation in Poland's external environment, members of the Council pointed to the improvement in economic situation in the euro area and expected further increase in activity growth in this economy. Attention was drawn to the decline in the unemployment rate, pick-up in retail sales and improvement in consumer sentiment in the recent period. It was argued that economic activity in the euro area had been supported by the previously observed steep decline in commodity prices. Certain Council members emphasized in particular favourable economic situation in Germany – Poland’s main trading partner – including the increase in consumption and improvement in industry.

Some Council members assessed that the economic situation in the euro area had been supported by the quantitative easing programme conducted by the European Central Bank, which had contributed to the weakening of the euro and higher price competitiveness of this currency area. Those members also pointed to other positive effects of the ECB’s quantitative easing, including the easing of credit standards and interest rate decrease, which might suggest the onset of a revival in lending. Certain Council members emphasized that the ECB's quantitative easing programme might also stimulate growth in demand through the wealth effect related to the increase in the prices of assets held by households. It was also noted that the ECB's quantitative easing had heightened inflation expectations in the euro area.

Some Council members, however, pointed to possible negative consequences of quantitative easing programmes, including the possibility of the formation of bubbles in the asset markets. Some Council members assessed at the same time that the asset purchase programme in the euro area had no significant effect on activity in the real economy. In this context, certain members cited the example of the United States, where short-term positive effects of quantitative easing resulted – in their opinion – from directing a large part of the central bank's programme at the purchase of real estate assets. As the ECB’s asset purchase programme concerns largely Treasury bonds, it would have – in their opinion – only a minor impact on the real economy.

Some Council members assessed that further developments in the Greek economy were a source of risk for economic growth in the euro area. Certain members of the Council emphasized, however, that the effects of a possible insolvency of Greece for the financial markets might be limited, due to the ECB’s current quantitative easing programme, as well as the relatively small share of the private sector among Greek creditors.

While analysing the economic situation in the United States, Council members pointed to a slowdown in GDP growth in 2015 Q1. Factors that could adversely affect activity in the US economy were highlighted, including the cold winter, the appreciation of the dollar, and the previously observed strong decline in oil prices, which had dragged down profitability and had reduced investment of oil producers in this country. It was emphasized that deteriorating data in the recent period had postponed the expectations for interest rate hikes in the United States. Some members of the Council assessed that it had been difficult to determine the persistence of the slowdown, although recovery had been still expected to continue. Certain Council members assessed that since the economic crisis, the trend of GDP growth in the US had been generally constant. They also pointed out that GDP growth projections in the United States had been overoptimistic for the past few years, which forced their subsequent downward revisions. Certain Council members argued that the long-term GDP growth in the US economy could be adversely affected by the quantitative easing programmes conducted in the past by the Federal Reserve.

Members of the Council pointed out that improvement in the outlook for growth in developed economies had been accompanied by slowing GDP growth in many emerging economies. Attention was also drawn to the recession in Russia and Ukraine. Certain members of the Council pointed out that a possible further escalation of the conflict between these countries had posed a risk to economic growth in the external environment of the Polish economy. Some Council members also underlined the decline in economic growth in China. They assessed that imbalances in this economy, which could be observed in the real estate market, and in the recent period also in the stock market, posed a risk of a sharp drop in GDP growth. Certain Council members argued, however, that the rising share of consumption (at the expense of investment) in GDP growth might reduce the risk of a sharp drop in demand.

Council members pointed out that price growth in the global economy, including in the euro area and in the United States, had been still very low, however deflation in the euro area had decreased. It was emphasized that a certain rise in oil prices in the world markets in recent weeks had been accompanied by a slight decline in food prices. Certain members of the Council argued that the observed decline in commodity prices had been a symptom of a downward phase in the long-term cycle in the commodity market. Therefore, they argued that global inflation would remain low in the coming years.

While analysing the situation in the Polish economy, members of the Council pointed to the continuing economic recovery and the prospects for a gradual pick-up in economic growth, driven by both internal factors, and the expected further improvement in the economic situation in the euro area. Council members assessed that the continuing economic recovery was reflected in good data from industry, particularly in export-related branches, as well as the pick-up in production in the construction and the persistently favourable financial situation of enterprises. It was assessed that the retail sales data and consumer sentiment indicators had suggested continuing steady growth in consumption. It was argued that economic conditions had been supported by the improvement of the labour market situation, including wage and employment growth. Certain Council members pointed out that suggested wage growth in the public sector could support wage growth in the economy. Yet certain members of the Council pointed to the structural problems faced by the Polish economy: high unemployment and low wages, and thus the small share of wages in GDP growth. These factors – they argued – limited consumption of households.

Council members pointed to high investment growth, which supported growth in domestic economic activity. In this context, a significant percentage of enterprises planning to embark on new investments in business surveys was noted. Some Council members emphasized that in the coming quarters investment growth in the economy would be fuelled by the inflow of EU funds under the new budgetary perspective. Certain Council members also pointed to a possible pick-up in housing investment, driven by the improvement in the labour market situation and the decline in interest rates on loans. These members also assessed that accelerating investment would be accompanied by high growth in inventory, usually strongly pro-cyclical.

Certain members of the Council argued, however, that although in the first half of 2015 investment growth might slow down – which in their opinion may be a delayed effect of the economic slowdown recorded in the second half of 2014 – the coming quarters were expected to see its continued recovery. They argued that the continuing strong growth in investment might be connected to low investment growth recorded in the previous years. Other Council members judged that due to the much faster growth in investment than consumer demand, investment growth might decrease in the coming quarters.

While analysing trends in lending, some Council members assessed that lending had continued to expand moderately. In this context, certain Council members highlighted, in particular, the absence of any significant pick-up in the growth of corporate investment loans, despite the decline in interest rates charged on those loans. These members additionally pointed out that as interest rates on fixed term deposits had diminished, so had the share of those deposits in total household deposits, which had been accompanied by acceleration in inflows of capital to investment funds.

Certain Council members pointed out that following several years of fiscal policy tightening, the impact of this policy on demand growth in the economy would be probably neutral this year. With regard to public finance, certain Council members deemed that as the deficit of this sector had declined, the Excessive Deficit Procedure with regard to Poland might be lifted, which would be favourable in terms of the rating of Polish bonds, and hence the cost of debt servicing. Yet, other Council members argued that the public sector deficit was relatively high if the current rise in domestic demand was taken into account, while the sources of reducing the deficit applied in the past years had been exhausted. As a result, they believed that in the event of a next slowdown, fiscal policy might have limited scope for supporting demand in the economy.

Some Council members assessed that despite the recovery, a negative output gap prevailed in the economy. As a result, the annual price growth, including most core inflation measures, remained negative. These members also emphasised the absence of cost pressure in the economy, as indicated by a further producer price decline resulting from the previous sharp fall in commodity prices and moderate wage growth. In this context, business surveys were cited, which pointed to the absence of the risk of wage pressure arising in the nearest future. The consistently low level of inflation expectations of economic agents were also highlighted. Considering the above circumstances, these members assessed that the return of inflation to the target would be gradual.

Yet some Council members were of the opinion that the prolonged deflation was primarily the result of supply shocks related to the fall in commodity prices as well as low inflation in the euro area. Certain Council members also underlined that the decline in prices in Poland had been supported by the embargo on exports of certain Polish goods to Russia and by rising labour productivity. Certain Council members emphasised that as the impact of the supply shocks wore away, inflation in Poland would rise faster than the March NBP projection envisaged. In their opinion the steeper rise in inflation would also result from a higher than was assumed in the projection GDP growth in Poland and its external environment, which would be accompanied by faster domestic unit labour cost growth. At the same time they argued that in their opinion domestic demand growth had already exceeded potential output growth, which could lead to a deterioration in the current account balance, especially if the improvement in the terms of trade were to come to a halt.

Council members assessed that the annual price growth would remain negative in the coming quarters, mainly due to the previously observed sharp fall in commodity prices. At the same time, the expected gradual acceleration of economic growth, amidst recovery in the euro area and good situation in the domestic labour market, reduced the risk of inflation remaining below the target in the medium term. Therefore, the Council decided to keep the NBP interest rates unchanged: the reference rate at 1.50%, the lombard rate at 2.50%, the deposit rate at 0.50% and the rediscount rate at 1.75%.

Minutes of the Monetary Policy Council decision-making meeting held on 3 June 2015

Members of the Monetary Policy Council discussed the monetary policy against the background of the current and expected macroeconomic developments in Poland and abroad.

Analysing the economic conditions abroad, the Council members pointed to a pick-up in GDP growth in the euro area. It was indicated that economic activity in this economy was supported by a rise in consumption, associated with declining unemployment and a fall in fuel prices, which increased the purchasing power of households and improved the financial standing of enterprises. It was also emphasized that investment expenditures were accelerating, supported by positive corporate sentiment, the earlier depreciation of the euro and an improvement in the loan affordability following the introduction of the quantitative easing programme by the ECB. It was pointed out that lending growth was accelerating, as economic activity in the euro area was recovering. It was indicated that economic conditions improved also in the South European member states. Certain Council members emphasized that the forecasts for GDP growth in the euro area had recently been revised upwards. These members assessed that higher activity in the euro area had a positive impact on the Central and Eastern European economies.

Some Council members pointed out, however, that GDP growth in Germany had been lower than expected in 2015 Q1, posting a deceleration, which might nonetheless prove temporary. However, it was argued that the slowdown in GDP growth in large emerging market economies had been affecting economic activity in Germany. Certain Council members were of the opinion that lower growth in German exports to emerging market economies could have a negative, but limited, impact on Polish exports.

Some Council members stressed that in the United States the estimates for GDP growth in 2015 Q1 had been revised downwards, and that the GDP growth rate had turned out to be negative. It was assessed that the slowdown in GDP growth was primarily driven by the earlier appreciation of the US dollar, a severe winter and lower investments in the shale oil branch resulting from the earlier fall in crude oil prices. At the same time, it was pointed out that the decline in fuel prices, though sharper than in the euro area, had failed to stimulate consumer spending, yet had increased the savings rate. It was underlined that the slowdown in economic activity continued in early 2015 Q2. In addition, it was highlighted that the recent weaker data releases on the economic activity in the United States resulted in a setback in market expectations for the fed funds rate increase.

Certain Council members were of the opinion that the global imbalances, in particular excessive savings in some large economies, remained a drag on global and emerging market economic activity.

They emphasized that global economic activity could be disrupted by the difficulty to stimulate consumer demand in economies with high savings rates.

Evaluating the financial market developments abroad, the Council members pointed to a recent rise in sovereign bond yields in many advanced economies, including the euro area member states. The rise occurred despite the EBC’s public sector purchase programme. It was assessed that uncertainty about the measures taken to overcome Greece's sovereign debt crisis could have been a driver of both the increase in risk aversion in the financial markets and the rise in price volatility of many financial assets. Some Council members also pointed to a recent increase in the prices in the global commodity markets, primarily for crude oil.

Analysing the domestic real economic conditions and the economic outlook, the Council members stressed that the Polish economy had continued to recover in 2015 Q1. It was also emphasized that GDP growth in 2015 Q1 had been higher than expected. It was pointed out that although domestic demand growth had ebbed somewhat, this was primarily due to a fall in inventories. It was also emphasized that household consumption had been rising and investment growth – despite a high statistical base – had also picked up. In addition, the Council members pointed out that net exports, supported by a gradual recovery in the euro area, contributed positively to the GDP growth rate in 2015 Q1. Some Council members indicated that Polish foreign trade had been in surplus for two years, and more recently a surplus was recorded also in the current account. Certain Council members expressed an opinion that these figures showed that competitiveness of the Polish economy was improving and that there were no significant threats to Poland’s external balance.

The Council members assessed that household consumption in Poland was supported by the ongoing improvement in the labour market conditions. They emphasized that unemployment had fallen and highlighted that the number of the employed had reached historical highs. Some Council members assessed that, although employment had continued to rise, no wage pressure had been observed in the economy thus far, as the growth rate in unit labour costs had been stable. In this context, it was cited from the NBP business survey results that according to the survey participants there was no risk of a considerable acceleration in wage growth in the enterprise sector in the near future. Certain Council members argued that the room for wage increases in the enterprise sector was limited, given that the rise in employment was accompanied by a relatively small pace of increase in production and hence labour productivity. Certain Council members indicated, however, that in their opinion the unemployment rate was currently already below the equilibrium unemployment rate, which might be conducive to a rise in wage growth in the future. Other Council members expressed an opinion that the wage level in Poland was low. According to these members, faster productivity growth could lead to higher wages in Poland provided that it was brought about by more innovation in the Polish economy.

Referring to investment, attention was paid to an increase in the share of enterprises intending to launch new investment projects, as well as to a further recovery in construction. The Council members also argued that investment growth was supported by a very good financial position of enterprises and relatively high capacity utilization. Certain Council members assessed that corporate profits were supported by a fall in producer prices, as it reduced production costs more than revenues. Certain

Council members, however, judged that financial costs and revenues had been playing a significant role in shaping corporate profits. They argued that higher consumer demand could result in a lower share of financial revenues in total revenues of enterprises, as it would increase the relative profitability of sales compared to the profitability of financial operations.

Certain Council members noted that the investment growth rate had been exceeding that of the production. They assessed that therefore investment growth could slow down in the coming quarters, regardless of the expected increase in investments financed with EU funds.

The Council members highlighted that despite the favourable GDP data for 2015 Q1, economic activity growth could ease somewhat in early 2015 Q2, as indicated by a deceleration in industrial production and retail sales, and a decline in certain economic indicators. Some Council members emphasized that although the source of this slowdown was difficult to identify and the degree of its persistence hard to assess at the time of the meeting, it would most likely prove temporary. Certain Council members were of the opinion that ongoing growth in the real disposable personal income would support economic recovery.

Some Council members judged that fiscal policy could be eased in the following year. Certain Council members indicated that wages in the general government sector might be unfrozen, and that public spending on benefits and allowances was likely to be increased. The risk of easier fiscal policy was – according to certain Council members – associated with the expected abrogation of the excessive deficit procedure against Poland, which would make more room for larger public spending. Other members argued, however, that the general government deficit might increase in an event of a slowdown in output due to fluctuations in the business cycle.

Analysing the situation in the financial sector in Poland, some Council members indicated that lending to the private sector continued to grow steadily, which supported economic growth but did not pose a threat to financial stability. They emphasized that decreases in the NBP interest rates had contributed to a significant decline in interest rates on loans to households and enterprises. In this context, some Council members marked that there were currently no signs of imbalances in the housing market and that the risk of excessive growth in mortgage loans was limited by macroprudential policy tightening through lowering the maximum loan-to-value ratio.

Certain Council members emphasized, however, that in recent years, despite decreases in the NBP interest rates, lending growth in the economy slowed down somewhat. They assessed that the interest rates on corporate loans declined in recent months less than the NBP interest rates. These members also pointed to a slower deposit growth in the banking sector and a likely acceleration in the pace of growth in the ratio of impaired loans for currency loans in an event of depreciation of the zloty. Other Council members assessed, however, that the value of the foreign currency loans in relation to GDP was low in Poland.

Discussing inflation developments in the economy, the Council members emphasized that the consumer price growth had increased in recent months. It was pointed out that deflation had eased primarily due to a rise in food and energy prices. The Council members pointed out that forecasts suggested further price growth. Yet, most Council members assessed that inflation would return to the target only gradually as producer prices had been declining for many quarters and inflation expectations of households and enterprises were very low. They also assessed that the output gap in the economy had been negative, which had been translating into very low or even – in most cases – negative core inflation measures. Certain Council members highlighted that inflation would be returning to the target very slowly also due to still low price growth in the environment of the Polish economy. Other Council members judged, however, that due to a marked recovery in demand, inflation might increase faster than expected in the latest NBP projection.

The Council members assessed that in the coming months, the annual price growth would remain negative, mainly due to the earlier sharp fall in commodity prices. At the same time, the expected gradual acceleration in economic growth, amidst recovery in the euro area and good domestic labour market conditions, reduced the risk of inflation remaining below target in the medium term. Therefore, the Council decided to keep NBP interest rates unchanged: the reference rate at 1.50%, the lombard rate at 2.50%, the deposit rate at 0.50% and the rediscount rate at 1.75%.

Minutes of the Monetary Policy Council decision-making meeting held on 8 July 2015

Members of the Monetary Policy Council discussed monetary policy against the background of the current macroeconomic developments in Poland and abroad as well as the results of the July projection of inflation and GDP.

Analysing economic conditions abroad, the Council emphasised the consolidation of the euro area recovery. It was observed that the sustained growth in economic activity in the euro area was supported by a further decline in unemployment, the earlier strong depreciation of the euro and positive business and consumer sentiment. It was pointed out that as the economic activity improved and financing became more available, lending growth gained momentum. Good economic performance and favourable GDP forecasts for Germany – which is Poland's main trading partner – were also brought to attention. Moreover, some Council Members pointed to the temporary nature of the 2015 Q1 economic slowdown in the United States. Those members observed that the favourable outlook for the US economy was good labour market conditions, improving real estate market and the increasingly robust retail sales growth.

Some Council members emphasised that economic activity in the euro area – despite recovery – remained relatively weak. It was also indicated that the continuation of the euro area recovery may be jeopardised by Greece’s possible default and the country's exit from the common currency area. It was emphasised that the response of the financial markets to the situation in Greece had been moderate so far. At the same time, it was pointed out that should Greece’s negotiations with its creditors fail, this might hurt sentiment and economic activity in the euro area and worldwide. Certain Council members believed that the impact of a Greek default would probably be weaker now than if it had happened in the previous years.

Some Council members also highlighted the continued weakness of business activity in the largest emerging economies as a considerable risk to global economic growth. It was argued that the relatively subdued output growth in these economies was dragging on export growth in the developed countries, including Germany. Particular attention was paid to the weaker than in the previous years economic activity in China and the effects of excessive investment in the real estate market in this country. In this context, certain Council members considered that the developments in China – as well as the sentiment in the global financial markets – might also suffer from the slump in share prices on stock exchanges in this country.

With regard to global inflation developments, the Council pointed to the recent pick-up in price growth in many economies. It was emphasized, however, that amidst the merely modest global economic recovery and the persistence of relatively low commodity prices, inflation pressure in the global economy remained very weak, with price growth in the euro area, the United States, and – on average – the countries of Central and Eastern Europe hovering barely above zero.

While analysing the situation in the global commodity markets, it was observed that oil prices had edged down recently. In turn, agricultural commodity prices had risen sharply on the back of concerns about poor harvest due to unfavourable weather conditions.

When discussing monetary policy in Poland's external environment, it was pointed out that the main central banks were keeping interest rates close to zero. At the same time, while the ECB had announced the continuation of asset purchases until at least September 2016, the Fed had signalled the commencement of interest rate hikes as early as this year. Certain Council members emphasised, moreover, that some central banks in Poland's most immediate environment, i.e. in Sweden, Norway and Hungary, had eased their monetary policy in the recent period, as well as banks of the largest emerging economies – India, Russia and China.

While analyzing the situation in the real sphere of the Polish economy, some members expressed the opinion that GDP growth in 2015 Q2 might have continued close to the previous quarter's level. Members of the Council assessed that consumption, fuelled by further increase in real income of households and their positive sentiment, was likely to have remained the key driving force behind growth in economic activity. It was pointed out that growth in economic activity in 2015 Q2 was also supported by a further rise in investment. It was argued that corporate investment activity was driven by good financial conditions of corporations, enabling them to finance investment projects with their own funds. At the same time, some Council members pointed to a slowdown in both industrial production at the beginning of 2015 Q2 and sales in construction and assembly production in May 2015, as well as a merely moderate increase in retail sales. Certain Council members assessed that this might indicate a stabilization of economic growth in the coming quarters at the level close to that in 2015 Q1, or even its slight weakening.

In the opinion of the Council members situation in the labour market remained good. In particular, employment continued to rise and unemployment was still falling. Some members of the Council emphasized, however, that employment growth in the enterprise sector had levelled off, while the nominal wage growth in the sector had slowed down in the recent period. Nevertheless, certain Council members pointed that the real wage growth remained high and exceeded labour productivity growth. In the opinion of those members this situation, if continued – as indicated in the July projection – might bring about adverse structural changes in the economy; in particular, it might inhibit further increase of the share of industry in value added. Other Council members were of the opinion that the relatively rapid growth in real wages was justified given a relatively modest ratio of wages to GDP in Poland. Those members were of the opinion that high real wage growth did not necessarily have a negative impact on the economy, as labour productivity would increase with growing technological advancement and innovation.

While analyzing the situation in the financial sphere of the Polish economy, members of the Council remarked that the increase in lending to the private sector had slowed down somewhat in the recent period. It was pointed out that the rise in current account deposits was accompanied by a decline in term deposits. At the same time, growth of cash in circulation picked up. Certain members of the Council assessed that sustained high growth in mortgage lending in PLN, combined with a rising share of households whose income net of interest payment had fallen below the subsistence level, might be a source of risk to financial stability. Those members also expressed the opinion that the rising percentage of companies unable to cover interest expenses out of their profits was a negative phenomenon. Yet, the majority of Council members concluded that the financial sector showed no sign of imbalances or any tangible risk of their occurrence in the future. Some of those members of the Council emphasized that the growth of housing loans in transaction terms, had fallen to its lowest level in more than a decade. They also pointed out that the risk of excessive growth in housing loans in the future would be limited by the steady tightening of macro-prudential policy as the ceiling on the LtV ratio was progressively reduced. Referring to the ability of enterprises to repay their loan obligations, those members pointed out that the share of loans with payment delays was not increasing and remained at a moderate level.

When discussing the outlook for economic growth in the context of the July projection, it was indicated that GDP growth would be relatively stable at close to 3.5% over the whole projection horizon. Certain members of the Council pointed out that the central path of the July projection was slightly above that of the March projection. According to the current projection, economic growth throughout the projection horizon would be primarily supported by rising consumption, as well as the still relatively high – despite a certain weakening in the second half of 2016 – investment growth. Some Council members emphasized that given the projected GDP growth, the output gap would close in 2015 and would remain near zero in the subsequent years.

In the opinion of certain members of the Council, economic growth may, however, be stronger than indicated by the central projection path. According to these Council members, higher GDP growth may result from a slightly weaker exchange rate of the zloty than that accounted for in the projection. In this context, the above Council members indicated that the political risk related to the parliamentary elections and also the beginning of interest rate increases by the Fed might lead towards depreciation of the zloty.

In turn, some Council members highlighted downside risks to the forecasted path of economic growth. In particular, it was pointed out that Greece's possible default and its exit from the euro area might enhance risk aversion in the financial markets. This in turn, according to these Council members, could result in a rise in debt servicing costs, an outflow of portfolio capital from Poland and a depreciation of the zloty, which would increase the charges on economic entities resulting from foreign currency denominated loans. Unfavourable developments in Greece could also weigh down on business conditions in the euro area, which in turn would have an adverse impact on economic activity in Poland. However, the majority of Council members were of the opinion that the impact of turmoil related to the situation in Greece on the Polish economy would probably be limited.

Some Council members pointed to the shape of fiscal policy next year as a factor of uncertainty. These Council members emphasized that there was a risk of fiscal policy easing, particularly as the excessive deficit procedure against Poland had been lifted.

Discussing inflation developments in the economy, the Council members drew attention to the gradual increase in price growth. However, some Council members stressed that the weakening of deflation resulted exclusively from the increased growth of food and energy prices. At the same time, the majority of Council members assessed that given the moderate growth in demand and nominal wages as well as the persistently negative output gap, there was no inflationary pressure in the economy. In the opinion of these Council members, this was indicated by the still very low core inflation and continued decline in producer prices in annual terms. The Council members also drew attention to inflationary expectations remaining at a very low level.

Addressing the outlook for inflation, it was emphasized that in accordance with the July projection, assuming unchanged interest rates, price growth in 2015 Q4 would increase above zero and in the coming years would gradually move towards the inflation target. However, certain Council members were of opinion that price growth might be lower than indicated by the central projection path. In turn, other Council members assessed that price growth would be higher than indicated in the July projection, which could be caused by a weaker exchange rate of the zloty than that accounted for in the projection as well as a higher than assumed growth in food and energy prices.

Referring to the decision on interest rates, the majority of Council members acknowledged that in the coming years inflation was likely to gradually rise towards the target, but there was no risk of exceeding the target in the medium term. At the same time, the projection and external forecasts indicate that economic growth in the coming years would be around potential and should not lead to imbalances in the economy. Moreover, favourable conditions in the labour market continue, yet not entailing growth in wage pressure. In such a situation, and also taking into account that real interest rates will decline along with the forecasted increase in price growth, it is justified to stabilise nominal interest rates at the present level.

Certain Council members pointed out, however, that with nominal interest rates unchanged amidst gradually accelerating price growth, real interest rates might approach zero next year. Moreover, these Council members expressed the opinion that weak growth in food and energy prices was concealing wage pressure in the economy and increasing the current account balance. As a result, with shocks leading to low food and commodity prices waning, macroeconomic imbalances could build up in the economy. For these reasons, it may be justified – in their opinion – to consider in the coming quarters an increase in interest rates.

Yet, other Council members indicated that currently it was difficult to determine the direction of future interest rate decisions, particularly taking into account the uncertainty of the situation in Poland's external environment and its impact on the Polish economy.

The Council decided to keep the basic NBP interest rates unchanged: the reference rate at 1.50%, the lombard rate at 2.50%, the deposit rate at 0.50% and the rediscount rate at 1.75%.

Minutes of the Monetary Policy Council decision-making meeting held on 2 September 2015

Members of the Monetary Policy Council discussed monetary policy against the background of the current and expected macroeconomic developments in Poland and abroad.

Analysing economic conditions in Poland's environment, the Council pointed to the continued economic recovery of the euro area, which was supported by an improvement in the labour market situation and favourable business sentiment. At the same time, certain Council members emphasised that GDP growth in 2015 Q2 had slowed down somewhat and incoming data for 2015 Q3 did not clearly indicate an acceleration of economic activity. In turn, it was stressed that with the launch of the third assistance programme for Greece, the risk of a Greek default in the near term had receded and thereby the short-term risk of negative effects of the situation in Greece on the euro area economy had been reduced. Some of the Council members also drew attention to the favourable information on the economic situation in the United States, including data on GDP growth in 2015 Q2 and the good labour market situation.

An important issue regarding the situation abroad highlighted by Council members was the further weakening of the economic activity in the major emerging economies and related deterioration of global growth prospects. In this context, Council members pointed to the deepening recession in Russia and Brazil. However, it was noted that the main risk factor for global growth was the possibility of a stronger than expected slowdown in China. It was argued that a further weakening of economic activity in China could limit Chinese demand for products from other countries and reduce global economic growth. Some Council members were of the opinion that the impact of the slowdown in China on the global economy would be amplified by potentially accompanying deceleration in other Asian economies' growth. It was pointed out that slowdown in China could influence Polish economy mainly through possible fall in German exports and GDP growth, which would adversely affect Polish exports growth. However, certain Council members assessed that in view of China's limited share in German exports, the slowdown in China would have little impact on German GDP growth, and consequently, on the economic situation in Poland. Certain Council members also considered that in the longer term there could be – particularly amidst rising real wages – change in the structure of demand growth in China in favour of an increased share of consumer demand in GDP, which would support growth in exports from developed economies to China.

Council members emphasised that the deteriorating economic situation in China and other developing economies also caused a reduction in their demand for commodities. It was considered to be a significant factor driving a renewed decline in prices on global commodity markets in the recent period. It was noted that in the case of some commodities, the fall in price was also supported by rising supply. It was emphasised that even the negative supply shock related to the drought in certain countries had not stopped the fall in agricultural commodity prices. Certain Council members considered that commodity prices were most likely in a long-term downward trend, which might contribute towards an extended period of very low growth in global prices.

Regarding global price developments, it was pointed out that global inflation remains very low. Some Council members emphasised that the renewed fall in commodity prices and the weakening of the yuan and other currencies of emerging countries would be conducive to global inflation remaining low in the coming quarters.

While discussing monetary policy in Poland’s external environment, it was pointed out that there was continued uncertainty regarding the timing of the beginning of interest rate increases by the Federal Reserve. In turn, the ECB continued its asset purchase programme and there were some signals indicating a possibility of the programme expansion or extension. It was also pointed out that the People’s Bank of China had eased monetary policy, including a devaluation of the yuan. Certain Council members highlighted the fact that in the recent period the Bank of Hungary and Riksbank had once again eased monetary policy.

While discussing the situation in the global financial markets, it was pointed out that many asset prices had fallen and that their volatility had increased in the recent period. Indications of a stronger economic slowdown in China and the sharp fall of share prices in that country were significant factors leading to deteriorating financial market sentiment. This deterioration together with devaluation of the yuan also resulted in a weakening of the currencies of many emerging economies. Certain Council members drew attention to the fact that the upcoming monetary policy tightening by the Fed could increase depreciation pressure on emerging countries’ currencies, which, in economies with significant foreign currency denominated corporate debt, would increase the risk of currency crises. As a result, there could be a further deterioration in investors sentiment towards emerging markets. These members pointed out that an additional source of shocks in international financial markets could be the bursting of bubbles in other asset markets, whose formation had been driven – in their opinion – by the unconventional policies of central banks. In this context, they also underlined that due to the strong economic and financial ties, the occurrence of one shock in the external environment of Poland would increase the likelihood of other risk factors materialising. As a result, any possible shocks could have a major adverse impact on the situation in the global economy, including economic activity in the euro area.

While analysing the situation in Poland’s real economy, the slight weakening of GDP growth in 2015 Q2 was pointed out. It was emphasised that while consumption growth was stable, investment had lost momentum and the contribution of net exports to GDP growth had fallen. However, certain Council members believed that GDP growth was still faster than the growth of potential output. Some Council members drew attention to the lower than expected growth in output and retail sales in July as well as the fall in the PMI in August, which could signal weakening growth in activity. It was also pointed out that economic situation in certain sectors in 2015 Q3 might be adversely affected by drought and the temporary restrictions on electricity supply.

Some Council members pointed out that the slight slowdown in GDP growth was accompanied by a somewhat slower growth in wages and the number of working persons in the economy. Despite this, Council members were of the opinion that the situation in the domestic labour market remained good, resulting in continued robust growth in real wages, a declining unemployment rate and the growing likelihood of finding a job.

While discussing the outlook for economic growth, the majority of Council members emphasised that in the coming quarters GDP growth would most likely continue at a rate close to that observed in the first half of 2015. Further stable GDP growth would be supported by domestic factors, including the good situation in the labour market and the enterprise sector, the high capacity utilization and wide availability and relatively low cost of credit. The increase in activity in most sectors may also have been supported by low commodity prices and a certain weakening of the zloty exchange rate in recent months. Economic recovery in the euro area should also contribute to further stable growth. In turn, the deterioration of the economic situation in China and other emerging countries could have an adverse impact on GDP growth.

At the same time, the majority of Council members highlighted that in view of the weaker outlook for growth in the emerging countries, and also taking into consideration the slightly worse than expected data from the Polish economy in the recent period, the risk of a weakening in domestic activity growth had increased. According to certain Council members, there was increased risk of a strong external shock which – by weakening the economic growth of Poland’s trading partners and causing a deterioration in investors sentiment towards the assets of emerging markets – could lead to a slowdown in Polish GDP growth.

Council members drew attention to the fact that in light of such circumstances, it was important to maintain high resilience of the Polish economy to external shocks and support long-term economic growth. Certain Council members also highlighted the need to increase the innovation in the economy and remove barriers to development of small and medium-sized enterprises. In their opinion, this could lead to an increase in labour productivity and, as a result, accelerate wage growth and value added contained in Polish products. However, certain Council members emphasised that due to the upcoming parliamentary elections, proposals for changes in economic policy had been appearing which, if they were to be implemented, would adversely affect the state of public finances and thereby weaken the resilience of the Polish economy to external shocks.

While discussing the situation on the credit market, Council members considered that growth in credit for the private sector remained moderate. It was pointed out that the parliamentary work on the currency conversion of some loans denominated in foreign currencies was a factor of uncertainty for the banking sector, and therefore for credit growth. It was noted that the introduction of the regulatory solutions currently under consideration could contribute to a decline in credit growth and a reduction in tax revenue. Moreover, for some banks it could result in the need to increase their capital.

While discussing inflation developments in the economy, Council members pointed to the fact that despite continued deflation, its scale was gradually diminishing. However, the majority of Council members considered that in view of the output gap remaining negative, moderate growth of nominal wages and the fall in commodity prices on global markets, there was still no inflationary pressure. Some Council members drew attention to the persistence of producer price deflation, which could be prolonged due to the renewed fall of commodity prices. However, these members pointed out that the continued decline in producer prices had not yet had a clearly negative impact on the economic situation of enterprises.

While discussing the outlook for inflation, Council members assessed that in the coming quarters price growth would most likely continue to pick up gradually, as indicated by most forecasts. However, some Council members pointed out that the pace of price growth return to positive territory may be hampered in the coming quarters by the new fall in commodity prices in global markets. Another risk factor to the acceleration of price growth was the marked slowdown of the Chinese economy, which dragged on demand growth in other countries, and the effects of yuan devaluation, reducing the import prices of Chinese products. However, certain Council members stressed that price growth in the near term might be boosted by the growth in the prices of vegetables and fruit due to the drought, which had reduced the domestic output of these products.

With regard to the decision on interest rates, the majority of Council members acknowledged that in view of the expected stable economic growth, which will not result in imbalances in the economy, and at the same time the gradual increase in price growth towards the inflation target, a stabilisation of nominal interest rates at the current level is justified. Some Council members emphasised that the stabilisation of interest rates strengthens the resilience of the Polish economy to shocks, particularly in view of considerable uncertainty with regard to global economic outlook and increased volatility in international financial markets. Certain Council members pointed out, that the real interest rates ex ante, i.e. adjusted for forecasted inflation, were at low levels.

However, certain Council members were of the opinion that in the coming months it could be justified to consider raising interest rates. In their opinion, such a scenario was supported by the prospect of increased price growth amidst probable further improvement in economic conditions. In their opinion, an interest rate hike should also be considered due to the increased risk of strong external shocks, since this would increase room for monetary easing in the event of negative shocks.

The majority of Council members pointed out that due to the possibility of a stronger economic slowdown in China and renewed fall in commodity prices, uncertainty regarding economic activity and price developments in Poland had increased and the balance of risks for economic growth and inflation had shifted downwards. However, these members assessed that the most likely scenario was a stabilisation of interest rates.

The Council decided to keep the NBP interest rates unchanged: the reference rate at 1.50%, the lombard rate at 2.50%, the deposit rate at 0.50% and the rediscount rate at 1.75%.

Minutes of the Monetary Policy Council decision-making meeting held on 6 October 2015

Members of the Monetary Policy Council discussed monetary policy against the background of the current and expected macroeconomic developments in Poland and abroad.

When discussing economic activity abroad and its outlook, the Council members indicated that since the previous meeting, external forecasts for global and euro area economic growth had been revised downwards. They also noted that in China industrial production and investment demand growth had deteriorated further, but highlighted that consumer demand growth in this country remained relatively stable. At the same time, they pointed to a significant uncertainty about the economic growth outlook for China. Certain Council members argued that the decline in growth in China resulted mainly from economic growth rebalancing into a more consumer-based economy, which – in the longer term – might support conditions in exporters of consumer goods and services providers and firms providing them.

The Council members were of the opinion that the slowdown in China and other emerging market economies had so far had a limited impact on economic activity in Poland's main trading partners but highlighted that this impact might increase in the future. In the euro area, a moderate recovery continues, supported mainly by an improvement in labour market conditions and consumer demand growth, though economic conditions vary across euro area member states. In Germany, which is Poland's main trading partner, growth in economic activity is stable and the surveys indicate high export orders in this country. However, certain Council members pointed out that the slowdown in China – led by lower growth in investment and production of goods for investment purposes – might prove a substantial headwind to growth in Germany, since capital-intensive goods were important to German exports.

Moreover, certain Council members pointed out that even though data on economic activity in the United States had been recently somewhat worse than expected, GDP growth in this economy was still higher than in other major advanced economies, driven by a further improvement in labour market conditions. However, they highlighted that the labour force participation rate in the United States was the lowest since the 1970s, which could indicate limited resource utilization in this economy.

While discussing price developments abroad, Council members emphasized that the renewed fall in commodity prices in recent months had translated into lower inflation in many economies, also in the euro area, where price growth in September remained negative. They also indicated that inflation expectations in the euro area had declined and inflation forecasts had been revised downwards in many advanced economies.

The Council members also pointed to uncertainty about monetary policy abroad. They stressed that the Federal Reserve was expected to delay the interest rate increase. In turn, the European Central Bank did not rule out an extension of its asset purchase programme. In the opinion of certain Council members, such a decision might be beneficial for the Polish economy, as it could support economic activity in the euro area member states, including Germany. Certain Council members pointed also to still elevated volatility in the financial markets and a further depreciation of many emerging market currencies, including the zloty, albeit to a considerably lesser degree.

In this context, certain Council members judged that loose monetary conditions in major advanced economies had contributed to a strong rise in financial asset and real estate prices in previous years. As a result, a sharper market correction than recently observed, amplified by low liquidity in certain markets, should be expected in their opinion. They emphasized that the expected monetary policy tightening in the United States could be a trigger for a debt crisis in many emerging market economies, particularly where the issuance of debt securities denominated in the United States dollar had increased in previous years. According to these Council members, due to strong economic ties, such a crisis could spread to other economies, also to some euro area member states.

Discussing economic conditions in Poland, the Council members judged that, despite external risks, they remained favourable, supported by good labour market conditions, improved financial standing of enterprises, high capacity utilization, stable lending growth, as well as high price competitiveness of the Polish economy combined with ongoing economic recovery in Poland’s main trading partners. Some Council members, however, pointed out that industrial production and retail sales had grown less than expected in summer months, and sentiment in industry had reached its one-year low in September, which might point to a weakening in economic growth in Poland. Some of these members were of an opinion that the slowdown in Polish industry was cyclical; however, others believed that it rather resulted from adjustment in industrial output to lower demand for durable and capital goods in the global economy.

While discussing the labour market conditions, the Council members pointed to further growth in employment and a gradual decline in the unemployment rate, as well as to moderate wage growth. Certain Council members expressed an opinion that ongoing employment growth coupled with only moderate wage growth indicated a rather positive assessment of Polish enterprises regarding future economic conditions. However, other Council members pointed to labour market tensions resulting from difficulties in finding suitably skilled workers. As a result, the pace of improvement in labour market conditions, measured by employment growth, had levelled off in recent months.

During a discussion on household sector conditions, it was highlighted that the voluntary household savings rate had recently risen. According to some Council members, the increase in the propensity to save could limit consumption growth in the coming quarters. Most of these members noted that the rise in the savings rate was a positive development in the Polish economy in longer term, but some of them were of the opinion that it might prove a drag for economic growth in Poland, both in shorter and longer run. Certain Council members also pointed to a some acceleration in lending to households in the recent months.

The Council members also pointed to an improvement in financial standing of enterprises, in particular to renewed growth in company profits. Moreover, certain Council members noted that corporate lending had accelerated of late, driven by faster growth in current loans and stable increase in investment loans.

The Council members judged that the financial system in Poland was functioning in a stable manner. However, they maintained their assessment that a possible currency conversion of some foreign currency loans posed a significant risk to banking sector stability in Poland.

Assessing the outlook for economic growth in the coming quarters, the Council members judged that it should be close to the NBP’s July projection. At the same time, they underlined that since that projection the risks for economic growth had shifted to the downside, mainly due to recent developments abroad. The Council members pointed to a risk of more expansionary fiscal policy in the coming quarters that could result from the implementation of the draft budget law for 2016 as well as the election promises. If effected, fiscal expansion could support economic growth in the coming quarters, but – according to some Council members – might also undermine fiscal stability in the longer run.

Analysing the possible impact of weaker growth outlook in China on economic conditions in Poland, the majority of the Council members judged it should be limited given a small share of this country in Polish exports and the ongoing economic recovery in the euro area. However, certain Council members were of the opinion that already observed and possible further external shocks might have a strong negative impact on Polish economy. They argued that the capacity for anti-cyclical economic policy was limited due to substantial – in their assessment – fiscal imbalances and low interest rates.

While discussing price developments in Poland, it was noted that deflation had deepened slightly in September due to further decline in global commodity prices. Certain Council members also pointed to a sharper fall in producer prices. Along with slow growth in unit labour costs, this contains a risk of rising cost pressure. Yet, in the opinion of the Council members, in the coming months inflation should gradually increase. However, the majority of the Council members emphasized that inflation would probably rise at a somewhat slower pace than expected in the July projection. They stressed that starting from 2016 Q1, the rise in inflation might come to a halt, and following that, inflation could remain slightly below the lower band for deviations from the target. However, certain Council members pointed to upside risks to inflation in the coming quarters, resulting from growing tensions in the domestic labour market, relatively high wage increases planned by enterprises and a likely – in their opinion – rise in food prices caused by adverse weather conditions in some parts of the world.

Referring to interest rate decisions, the majority of the Council members were of the opinion that it was justified to keep nominal interest rates at the current levels, as the risks in the environment of the Polish economy were not having a clear impact on economic growth and inflation was expected to rise gradually towards the target. Some Council members emphasized that stable interest rates support the resilience of the Polish economy to shocks, particularly amidst considerable uncertainty about the global economic outlook. Certain Council members judged that a further reduction in interest rates would fail to translate into a significant lending growth, at the same time resulting in lower voluntary household savings.

However, certain Council members expressed an opinion that the Council should consider the possibility of a reduction in interest rates in the coming months. In their view, lower interest rates would support domestic demand and therefore contain the scale of a possible economic slowdown driven by worse economic conditions abroad. They also argued that monetary policy easing in Poland would reduce the interest rate differentials between Poland and abroad, including the euro area, where monetary conditions might be loosened over a longer period than previously expected.

In turn, according to certain Council members, the Council should consider interest rate increases in the coming months. These members argued that the interest rate increases are justified by a faster acceleration in price growth than assumed in the July projection expected by them and a high risk of severe external shocks. In their opinion, interest rate increases would provide more room for monetary policy easing in the event of adverse shocks.

The Council decided to keep the NBP interest rates unchanged: the reference rate at 1.50%, the lombard rate at 2.50%, the deposit rate at 0.50%, the rediscount rate at 1.75%.

Minutes of the Monetary Policy Council decision-making meeting held on 4 November 2015

Members of the Monetary Policy Council discussed monetary policy against the background of macroeconomic developments in Poland and abroad as well as the results of the November projection of inflation and GDP.

When discussing economic activity abroad, the Council members underlined that the continued recovery in developed countries had been accompanied by a slowdown in GDP growth in the largest emerging economies, and even recession in some of them. They pointed out that in the United States – despite the sustained recovery – recent incoming data had been somewhat weaker. In this context, Council members highlighted the decline in GDP growth rate in 2015 Q3, slower improvement in the labour market, lower growth of industrial output and deterioration of business sentiment. However, it was judged that the slowdown in economic activity growth in the United States had been most likely temporary.

Council members underlined that in the euro area economic growth continued at a stable, although moderate, rate. Economic growth had been supported by improving consumer demand and growing exports, partly related to the previously observed weakening of the euro exchange rate. At the same time it was pointed out, that investment growth had remained low. Some Council members judged that economic activity in the euro area was supported by the expansionary monetary policy of the European Central Bank. However, certain Council members were of the opinion that the main factor behind the growth in demand in the euro area economy was the sharp fall in commodity prices, which increased real disposable income, while the impact of the ECB's monetary policy on the economic activity was negligible.

While discussing the economic outlook in the euro area, some Council members pointed out that the slowdown in growth in the emerging economies, including China and Russia, was a risk factor for the euro area economy. This slowdown had already translated into a fall in euro area exports to these economies. However, some Council members emphasised that in the recent period the risk of a sharp slowdown in economic growth in China had declined, which was indicated by the better than expected GDP data. Moreover, they pointed out that the economic slowdown observed so far in China had not had strong negative impact on economic activity in the euro area. Certain of these members also argued that – despite the slowdown – growth in China would remain markedly higher than in the developed economies, therefore it would not significantly limit GDP growth in the euro area. Moreover, certain Council members pointed out that the influx of immigrants could support economic activity through higher consumption and housing investment. Growth in the euro area could be also supported by investment financed by the European Fund for Strategic Investments.

Referring to monetary policy of the major central banks, Council members emphasised that uncertainty about its outlook persisted. It was pointed out that despite the somewhat worse data in the United States, the Federal Reserve announced interest rate hike in the coming months. On the other hand, the ECB was signalling further monetary policy easing due to the persistence of very low price growth in the euro area.

Council members emphasised that expectations of the ECB's monetary easing and better than expected data from China had contributed to an improvement in sentiment in the financial markets. However, some Council members judged that volatility in the financial markets could once again increase along with the beginning of Fed's monetary policy tightening, particularly in the context of continued risks to the economic situation in the emerging economies, including China.

Referring to the economic situation in Poland, Council members pointed out that economic activity continued to expand steadily and that domestic demand remained the main driver of growth. It was emphasised that the situation in the labour market further improved, and employment in enterprises – like the number of job vacancies – was relatively high. At the same time, the unemployment rate was close to the pre-crisis level. Moreover, some Council members pointed to the acceleration in wage growth in enterprises in the recent month. Council members underlined that the robust labour market and the increase in the wage fund supported stable consumption growth. However, some Council members judged that consumption growth remained relatively low, which could be due to the sustained increase in the household saving rate, observed despite the low nominal NBP interest rates.

When addressing the business conditions in Poland, Council members pointed to the stable growth in industrial output and the continued good situation of enterprises as indicated by business sentiment surveys. It was emphasised that these surveys suggested that despite the economic slowdown in China, Polish enterprises had not so far experienced considerable fall in sales. However, some Council members argued that despite the good economic situation, many enterprises were refraining from investments. They judged that this could be due to the continued uncertainty about the situation in the global economy or the lack of conviction as to the sustainability of the recovery in demand in Poland.

While analysing the situation on the credit market, Council members pointed to the stable growth in lending in the economy, with a slight deceleration in lending to households and an increase in corporate lending growth. Certain Council members stressed that corporate demand for credit remained low due to the significant share of companies' own funds in financing investments. It was also underlined that in the housing credit market there were no signs of growing imbalances.

While discussing inflation developments in the economy, Council members emphasised that consumer price growth remained negative. It was pointed out that in October price growth was once again lower than its forecast. However, it was judged that low price growth remained to be a global phenomenon and resulted mainly from the sharp fall in commodity prices in the global markets. At the same time, Council members emphasised that low price growth was accompanied by stable GDP growth and improving labour market conditions. Certain Council members pointed out that the fall in prices – largely driven by low commodity prices – supported real incomes of consumers and limited production costs of enterprises.

While discussing the November projection, it was pointed out that the coming quarters were expected to see further stable GDP growth, supported by domestic demand. At the same time, it was emphasised that the contribution of net exports to growth would remain negative. Despite this, Council members pointed to the lack of significant risk to the external balance of the economy. Some

Council members judged that – in line with the projection – GDP growth in 2016 could temporarily decrease. This fall, however, would be associated with a temporarily lower inflow of EU funds due to the beginning of absorption of funds from the new budgetary perspective. However, certain Council members emphasised that the GDP growth forecast for the coming years was slightly lower than in the previous projection, which partly resulted from a downward revision of forecast for corporate investments.

While analysing the results of the projection, Council members pointed out that due to stable GDP growth continuing above the potential rate, the output gap would gradually close. However, certain Council members expressed the view that so far observed and projected investment growth, would raise the potential output. As a result, growth of potential GDP could be faster than in the projection, which along with the forecast growth of actual GDP might not lead to the closure of the output gap in the projection horizon. At the same time, certain Council members emphasised that the lowering of the equilibrium unemployment rate would be a factor increasing the potential output of the economy and would simultaneously limit wage pressure in the economy.

While discussing the outlook for inflation in the context of the projection, Council members judged that in the coming quarters price growth would slowly increase. Price growth would be supported by stable growth in demand observed against the background of an improving economic situation in the euro area and the robust domestic labour market. At the same time, certain Council members pointed out that the period of deflation had prolonged, and the expected return of inflation to the target in the projection had receded. Certain Council members expressed the opinion that since they expected low commodity prices to persist in the global markets, and due to the limited growth of demand in the environment of the Polish economy, and therefore also in Poland, there was a risk of price growth continuing at a very low level for more prolonged period.

While referring to the projection, Council members pointed to the risk to the base scenario. The continued uncertainty about the global outlook, commodity prices and price growth in the environment of the Polish economy were emphasised. It was also stressed that due to the appointment of the new government, there was uncertainty about the future economic policy, particularly the shape of fiscal policy in the next year.

While discussing interest rates, the Council assessed that they should remain unchanged. While justifying this decision, Council members argued that in the coming quarters price growth would rise slowly, which would be driven by stable economic growth and the gradual closing of the output gap. Council members emphasised that prolonged deflation in Poland was mainly related to the factors beyond the reach of domestic monetary policy, among others, low commodity prices and low price growth abroad. Certain Council members also expressed the opinion that although GDP growth might remain below potential, the source of the negative output gap would continue to be external, and therefore it would remain beyond the influence of domestic monetary policy.

Some Council members argued that an additional factor in favour of a stabilisation of interest rates was the persisting uncertainty about the economic outlook abroad and the monetary policy of the main central banks, which could contribute to volatility in the financial markets, including volatility of exchange rates of the emerging economies. Some Council members also stressed the uncertainty about the shape of future economic policy, which should be taken into account in monetary policy decisions in order to ensure an optimal macroeconomic policy-mix.

Certain Council members were of the opinion that although interest rates should remain unchanged at the current meeting, in the coming months it could not be excluded that a slight lowering of the rates might be needed. While justifying this view, these members pointed to the risk of deflation persisting longer than expected which would shift the prospects of inflation returning to the target, and the risk of a slowdown in economic growth.

The Council decided to keep the NBP interest rates unchanged: the reference rate at 1.50%, the lombard rate at 2.50%, the deposit rate at 0.50%, the rediscount rate at 1.75%.

Minutes of the Monetary Policy Council decision-making meeting held on 2 December 2015

Members of the Monetary Policy Council discussed monetary policy against the background of current and future macroeconomic developments in Poland and abroad.

When discussing economic activity abroad, Council members drew attention to the continued moderate recovery in developed countries. They underlined that consumer demand continued to be the main growth factor in the euro area. In turn, investment growth in this economy was still relatively low. It was pointed out that the pace of recovery was also hampered by the low demand in the emerging markets. This factor was most likely responsible for the slight drop in GDP growth in the euro area in 2015 Q3 and also the marked fall in German export growth. However, Council members judged that in the coming quarters the economic conditions in the euro area would probably continue to gradually improve. Growth in economic activity in this economy – in the opinion of the Council members – could additionally be supported by an increase in consumption and housing investment connected with the influx of immigrants. The possibility of a further slowdown in growth of the emerging economies remained a risk factor for the economic situation in the euro area.

In the United States the economic outlook remains moderately favourable. It was pointed out that the slowdown in GDP growth in 2015 Q3 resulted mainly from the drop in inventory and was probably temporary. However, it was underlined that the low growth in industrial output and retail sales suggested that the pick-up in GDP growth in the coming quarters might be moderate. Certain Council members were of the opinion that also in the long term economic growth in the United States might remain moderate due to the slow growth in productivity in the US economy. In this context, they underlined that in comparison with previous phases of the recovery, GDP growth in the United States is currently low.

Council members drew attention to the continued weak economic situation in the emerging economies. However, it was pointed out that in some of these economies there are signals of economic activity stabilising. In this context, attention was drawn to the reduction in scale of the GDP decline in Russia in 2015 Q3 and slower contraction in Russia's industrial output, as well as the slightly better PMI in China.

Certain Council members judged that the risk of severe shocks in the global economy remained, and that the likelihood of their materialisation is increased by the imbalances in many asset markets. In the opinion of these Council members, significant risk is posed by the possibility of financial crises in the emerging markets related to the considerable currency debts of these countries' enterprises. These Council members assessed that the occurrence of disturbances in the emerging markets - accompanied by relatively low GDP growth in the United States - could lead to deterioration in global economic conditions.

Referring to monetary policy of the major central banks, Council members emphasised that in the near future the divergence between the monetary policies of the Federal Reserve and the ECB would grow. The Federal Reserve announced the beginning of the cycle of interest rate hikes in the next months. In turn, the ECB signalled further easing of monetary policy. Council members emphasised that the divergence of monetary policy between the major central banks could lead to periodic increase in financial market volatility, particularly considering the continued uncertainty as to the scale and timeline of the Fed's interest rate hikes. Risk aversion in the financial markets could also increase in reaction to a renewed rise of fears about the economic situation of the emerging economies.

Certain Council members judged that global factors would strongly affect the asset prices and exchange rates of the emerging economies, including Poland. At the same time, it was underlined that the exchange rate of the zloty - despite a certain weakening in the recent period - remained relatively stable. In the opinion of some Council members, the volatility of the zloty is limited by the positive assessment of Poland by foreign investors, the effect of which is a significant share of long-term investors in structure of Poland's foreign debt.

While analysing the situation in Poland's real economy, Council members pointed to the continued stable GDP growth, and even its' slight acceleration in 2015 Q3. The main growth factor continued to be consumer demand, supported by growing employment and positive household sentiment. At the same time, in the view of some of the Council members, growth of consumer spending remained moderate due to the relatively low nominal wage growth and a higher rate of voluntary saving than earlier. It was pointed out that the growth in investment also contributed to GDP growth, although it had slowed down in 2015 Q3 -. Certain Council members judged that the investment slowdown in the economy could be connected with the lower absorption of EU funds. In turn, according to some Council members, the corporate propensity to invest could be reduced by the uncertainty regarding the economic situation abroad. It was pointed out that net exports also had a positive contribution to GDP growth in 2015 Q3. However, certain Council members underlined that growth of Poland's foreign trade had slowed down, while import growth had decelerated more than exports.

While discussing the situation in the labour market, Council members pointed out that the level of employment was high and that the unemployment rate was close to the pre-crisis level. Certain Council members emphasised that, despite the very favourable situation in the labour market, nominal wage growth in the economy remained relatively low. Other Council members also stressed that wage levels in Poland remained low compared to West European countries and pointed out that their growth required an increase in innovation and technological advancement of Polish production.

While analysing the situation on the credit market, Council members pointed to a certain pick-up in growth of corporate loans. Certain Council members judged that the growth of loans to enterprises was only modest, and in the case of SMEs, low. These Council members pointed out that the corporate loans to GDP ratio in Poland was considerably lower than in the euro area. However, some Council members underlined that currently the growth of corporate loans - amidst low interest rates and their high availability - was not restricted by supply factors. At the same time, certain Council members judged that an increased financial burden imposed on the banking sector could most likely adversely affect the credit supply in the future.

Referring to the outlook for economic growth, the majority of Council members believed that in the coming quarters GDP growth would remain relatively stable. Certain Council members even assessed that, provided GDP growth would not be weakened by external shocks, growth in 2016 could be higher than in 2015. The economic growth would continue to be supported by strong consumer demand and investment. However, it was pointed out that investment growth might slow down. The temporarily reduced inflow of EU funds in the initial phase of the new budget perspective would contribute to this process. In the opinion of certain Council members, corporate investment growth might be restricted by the relatively high level of investment outlays of enterprises in relation to fixed assets, and the moderate growth in demand, which did not create incentives to expand production capacity.

Council members judged that – besides domestic demand – rising exports would also boost economic activity in Poland. Certain Council members were of the opinion that in connection with the current economic recovery in the euro area, export growth would be higher than GDP growth. At the same time, it was pointed out that the weakening of foreign trade related to the further slowdown in emerging economies remained the main risk for domestic economic activity. Certain Council members also judged that possible financial crises in the emerging economies and resulting weakening of the global economy might be the source of negative shocks for the Polish economy.

While discussing inflation developments in Poland, Council members pointed out that the scale of consumer price deflation was gradually declining. Council members argued that in the coming quarters price growth would continue to rise, driven by further stable growth in economic activity and the robust domestic labour market. However, some Council members pointed out that the increase in price growth was slow and weaker than expected. Certain Council members highlighted that if wage growth did not pick up, the return of inflation to the target could lengthen. In this context, certain Council members pointed out that the announced unfreezing of wages in the public sector - in addition to the low unemployment - may contribute to a pickup in wage growth in 2016.

Council members discussed monetary policy conducted in the years 2010-2015. It was assessed that in this period the long-term stability of prices in Poland had been maintained, despite the increased volatility of price growth in certain years. It was pointed out that inflation volatility was mainly the effect of sharp changes in commodity prices in global markets. At the same time is was emphasised that monetary policy supported the stability of the zloty, which during the term of office of the Council was one of the least volatile currencies. It was also underlined that the flexible response of monetary policy to shocks contributed to the maintenance of balanced economic growth and financial stability. In this context, Council members pointed to, above all, the low volatility of the output gap, the current account surplus, and the maintenance of lending growth at a stable level.

While discussing interest rates, the Council assessed that they should remain unchanged. Council members argued that in the coming quarters price growth would pick up slowly, which would be driven by stable economic growth and the gradual closing of the output gap. Council members judged that in the light of available data and forecasts, the current level of interest rates is conducive to keeping the Polish economy on a sustainable growth path and sustaining macroeconomic balance.

Some Council members stressed that the persistence of uncertainty regarding the domestic and external developments also spoke in favour of interest rate stability. In this context, they pointed above all to the persistent risk of sharper weakening of growth in emerging economies and the expected growing divergence of monetary policies of the main central banks, which could contribute to an increase in volatility in financial markets. They also pointed to the uncertainty regarding the shape of future economic policy.

Certain Council members thought that the Council should consider interest rate increases in the nearest months. They argued that this would provide more room for monetary easing in the event of strong external shocks. These Council members argued that in the absence of interest rate hikes, monetary policy would become procyclical, contributing to a deterioration of the current account balance and an increase in Poland's foreign liabilities. The rising dependence of the Polish economy on foreign finance could, in turn, limit the possibility to conduct countercyclical monetary policy in the future, due to the concerns about a sharp change in the zloty exchange rate and flows of foreign capital.

However, certain Council members were of the opinion that although at the current meeting interest rates should remain unchanged, in the coming months – as the uncertainty about the determinants of monetary policy abates - it could be justified to lower them. These Council members pointed out that price growth was slow and inflation forecasts for the coming years were being revised downwards. These Council members also judged that a possible easing of monetary policy would contribute to a recovery of lending to enterprises which – particularly in the case of the SME sector – remained relatively weak. However, the easing of monetary policy could be pursued amid stable exchange rate. Other Council members argued that lowering interest rates would not contribute to acceleration of corporate lending – which was restricted by demand factors – yet it could have an adverse effect on the stability of the financial system.

The Council decided to keep the basic NBP interest rates unchanged: the reference rate at 1.50%, the lombard rate at 2.50%, the deposit rate at 0.50% and the rediscount rate at 1.75%.

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 2015 are presented below:

- Date: 14 January 2015

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	**Against:**	M. Belka
			E. Chojna-Duch
			A. Glapiński
			J. Hausner
			A. Kaźmierczak
			E. J. Osiatyński
			A. Rzońca
			J. Winiecki
			A. Zielińska-Głębocka

- Date: 14 January 2015

Subject matter of motion or resolution:
Motion to lower the NBP interest rates by 0.25 percentage points.

Voting of the MPC members:

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

Date: 4 February 2015

Subject matter of motion or resolution:
Motion to lower the NBP interest rates by 0.25 percentage points.

MPC decision:
Motion did not pass.

Voting of the MPC members:

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

Date: 4 March 2015

Subject matter of motion or resolution:
Motion to lower the NBP interest rates by 0.5 percentage points.

MPC decision:
Motion passed.

Voting of the MPC members:

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

Date: 4 March 2015

Subject matter of motion or resolution:
Motion to lower the NBP interest rates by 0.25 percentage points.

MPC decision:
Motion was not voted.

Date: 4 March 2015

Subject matter of motion or resolution:
Resolution No. 1/2015 on reference rate, refinancing credit rate, deposit rate and rediscount rate at the NBP.

Voting of the MPC members:

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

Date: 15 April 2015

Subject matter of motion or resolution:
Resolution No. 2/2015 on approving the Annual Financial Report of Narodowy Bank Polski prepared as of 31 December 2014.

Voting of the MPC members:

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

■ Date: 5 May 2015

Subject matter of motion or resolution:
Resolution No. 3/2015 on approving the report on monetary policy implementation in 2014.

Voting of the MPC members:

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

■ Date: 5 May 2015

Subject matter of motion or resolution:
Resolution No. 4/2015 on the evaluation of the activities of the NBP Management Board as regards the implementation of the monetary policy guidelines for the year 2014.

Voting of the MPC members:

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

■ Date: 19 May 2015

Subject matter of motion or resolution:
Resolution No. 5/2015 on approving the report on the operations of Narodowy Bank Polski in 2014.

Voting of the MPC members:

For:	**Against:**
M. Belka	
A. Bratkowski	
E. Chojna-Duch	
J. Hausner	
A. Kaźmierczak	
E.J. Osiatyński	
J. Winiecki	
A. Zielińska-Głębocka	

A. Glapiński and A. Rzońca were absent.

■ Date: 7 July 2015

Subject matter of motion or resolution:
Resolution No. 1/DRF/2015 of 7 July 2015 on the appointment of a registered auditor for the Annual Financial Statements of Narodowy Bank Polski for years 2015 and 2016.

Voting of the MPC members:

For:	**Against:**
M. Belka	
A. Bratkowski	
E. Chojna-Duch	
A. Glapiński	
J. Hausner	
A. Kaźmierczak	
E.J. Osiatyński	
A. Rzońca	
J. Winiecki	

A. Zielińska-Głębocka was absent.

■ Date: 15 September 2015

Subject matter of motion or resolution:
Resolution No. 6/2015 of 15 September 2015 on adopting Monetary Policy Guidelines for 2016.

Voting of the MPC members:

For:		**Against:**
	M. Belka	
	A. Bratkowski	
	E. Chojna-Duch	
	J. Hausner	
	A. Kaźmierczak	
	A. Rzońca	
	J. Winiecki	

A. Glapiński, E.J. Osiatyński and A. Zielińska-Głębocka were absent.

■ Date: 1 December 2015

Subject matter of motion or resolution:
Resolution No. 7/2015 of 1 December 2015 on approving the Financial Plan of the National Bank of Poland for 2016.

Voting of the MPC members:

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

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