NBP

National Bank of Poland

Monetary Policy Council

MINUTES OF THE MONETARY POLICY COUNCIL DECISION-MAKING MEETING HELD ON 8 FEBRUARY 2012

At its meeting, the Monetary Policy Council discussed the current and future monetary policy decisions against the background of external and domestic macroeconomic developments, including inflationary processes in the Polish economy.

While discussing the external conditions of the Polish economy, attention was drawn to the further downward revisions of GDP growth forecasts for the euro area, suggesting stagnation in the euro area economy in 2012. Some Council members pointed out that banks' efforts to increase their equity capital posed risk of further reduction in lending in the euro area countries, what would additionally worsen the outlook for the euro area growth. At the same time, it was noted that the business climate in the United States had improved, although some members of the Council argued that the acceleration in consumption in 2011 Q4, may turn out to be temporary and it should be expected that subsequent quarters will bring weaker growth in the US economy.

While analysing the external environment of the Polish economy, members of the Council drew attention to the fact that despite persisting uncertainty connected with the fiscal crisis in some euro area countries, the sentiment in the global financial markets improved. This was reflected in the appreciation of currencies of developing economies, including the zloty. At the same time, the Council members emphasised that it was difficult to assess whether zloty strengthening would be sustained. This was due to the fact that although the equilibrium exchange rate most probably remained stronger than the market rate, the zloty exchange rate is currently primarily driven by global factors, including, in particular, changes in risk aversion in the financial markets.

While discussing the outlook for the growth in domestic economy, members of the Council pointed to signs of weakening in economic activity, in particular, to slowdown in the growth of Polish exports to the euro area, persistently heightened unemployment rate and weaker growth in household lending. Yet, in the opinion of some Council members, the slowdown in the domestic economic activity may be less pronounced than previously anticipated, which is suggested by an improvement in some economic climate indicators pointing to a relative resilience of the Polish economy to the worsening of business activity abroad.

Some members of the Council assessed, however, that GDP growth in Poland was likely to decline substantially, what, in their opinion, would be driven, on the one hand, by further fiscal tightening, and, on the other hand, by weaker private consumption growth, being the result of the rebuild of household savings, following a considerable fall in the savings rate observed in the recent period. At the same time, according to those Council members, slight decline in production capacity utilization, considerable uncertainty and a large share of replacement investment in total corporate investments, which can easily be discontinued, make further investment acceleration rather unlikely. Additionally, the appreciation of the zloty, amidst worsening business climate abroad, is likely to lower net exports contribution to domestic GDP growth.

While discussing inflationary developments, members of the Council emphasized that the anticipated weakening of the domestic economic activity, connected with both slowdown in the global economic growth, as well as, tightening of the domestic fiscal policy, would support gradual decline in inflation. Also, the appreciation of the zloty at the beginning of 2012 would be a factor lowering inflation. It was pointed out that inflationary pressure in the subsequent quarters would also be curbed by elevated unemployment and low wage pressure.

At the same time, some members of the Council pointed out that inflation in Poland had been running above the upper limit for deviations from the target, i.e. 3.5%, for a year now. Members of the Council also emphasized that despite some decline in inflation, the NBP short-term forecasts pointed to a risk of inflation remaining above the target of 2.5% throughout 2012. In turn, in the opinion of few Council members, inflation persisting above the target for an extended period of time creates a risk of wider indexation of contracts, including wage contracts, which would be a factor strengthening inflation persistence and preventing it from returning to the target. Those Council members pointed out that a similar effect may be brought about by inflation expectations of both households and corporates running at an elevated level.

Members of the Council emphasized that growth in energy prices would continue to push up domestic inflation. Against this background, it was noted that the persistently growing demand for oil in the global economy, amidst limited growth of oil supply (especially, taking into account geopolitical tensions in the oil mining regions), may contribute to higher crude oil prices also in the long-term, limiting inflation decline in Poland. Some members of the Council pointed out that the NBP surveys showed an increase in the number of companies intending to raise prices of their products in response to the expected further surge in prices of commodities and materials. In the opinion of few Council members, domestic inflation may also be increased by higher inflation abroad, should the expansionary policy pursued by major central banks, including continued quantitative easing, translate into global inflationary pressure.

Few Council members additionally pointed out that amidst the expected decline in domestic economic activity, budget revenues growth may be lower than assumed what, considering the planned scale of fiscal tightening, posed a risk of indirect tax increases. This would, in turn, translate into further price increase in the Polish economy, extending the period of heightened inflation.

Moreover, few Council members noted that despite keeping the NBP interest rates unchanged in the recent period, interest rate increase in the interbank market in 2011 Q4 meant that monetary policy conditions in Poland became more restrictive, in particular, taking into account the appreciation of the zloty at the beginning of 2012.

However, some members of the Council argued that the real interest rates were not high, considering the structural factors and the current macroeconomic situation in Poland. Those Council members also pointed out that the total increase in interest on loans to the private sector in 2011 was, despite interest rate rise in the interbank market at the end of 2011, somewhat lower than the increases in the NBP reference rate implemented by the Council in the first half of 2011. Moreover those Council members emphasized that the growth in money supply had been on the rise, reaching now a relatively high level.

While discussing the decision on the NBP interest rates, the members of the Council agreed that they should remain unchanged at the current meeting. As regards future monetary policy decisions, the majority of the Council members maintained their view that should the relatively fast domestic economic growth, elevated inflation and high inflation expectations continue, the increase in the NBP interest rates cannot not be ruled out. The majority of the Council members also pointed out that the decrease in inflation driven by the expected decline in demand might prove slower than previously anticipated. In this context, it was still emphasized that the incoming data on economic activity and inflationary processes in Poland in the coming months, as well as the NBP March projection, would be helpful in assessing the outlook for medium-term growth and inflation.

The Council decided to keep the NBP interest rates unchanged at the following levels: reference rate at 4.50%, lombard rate at 6.00%, deposit rate at 3.00% and rediscount rate at 4.75%.

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