MINUTES OF THE MONETARY POLICY DECISION MAKING MEETING HELD ON 6 FEBRUARY 2013

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

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

While analysing the outlook for external business conditions, a few Council members pointed to a further downward revision in the outlook for GDP growth in 2013 in countries being Poland's main trading partners, i.e. the euro area countries, including Germany. Other Council members pointed out that although the global economic activity would probably remain relatively low in the coming quarters, it was expected to show a gradual improvement in the second half of 2013. Considering the significant role of net exports in domestic GDP growth in the recent quarters, some Council members assessed that external economic developments in 2013 might have a stronger impact on economic activity in Poland than during the 2009 slowdown.

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

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

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

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

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

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

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

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

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

Yet, a few Council members assessed that the current interest rate level was relatively low as compared to the previous periods of economic downturns and further monetary policy easing was not justified. Those members also argued that excessive interest rate cuts would be a factor lowering the incentives to strengthen supply side of the Polish economy, which considering the depth of the current adjustments in some EU countries, including adjustments related to unit labour costs, would have an adverse consequences for GDP growth in the longer run.

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

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

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