Minutes from the Monetary Policy Council Decision Making Meeting Held on 5 February 2014

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

While discussing economic activity abroad, it was indicated that the global recovery is still moderate. Data on euro area point to a slowly improving economic conditions. In turn, activity growth in the United States – which is visibly stronger than in the euro area – recorded signs of weakening in comparison to previous expectations. At the same time, in China and in other emerging economies, where growth has slowed down to a low level (considering their past performance), there is persisting uncertainty about future developments in GDP. A few members of the Council also highlighted that, taking into consideration the significant scale and limited effectiveness of the stimulus provided so far to the emerging economies, there is little scope for revival of economic activity through additional actions of these countries' authorities.

While analysing the external environment of the Polish economy, the Council also discussed reaction of the financial markets to the QE tapering of the Federal Reserve and to the increased risk of Argentina suspending its debt servicing. These events have had a negative effect on the sentiment of market participants. The deterioration in investor sentiment, in particular in relation to certain emerging economies, resulted in an outflow of capital from some of these countries and a weakening of their currencies. In order to limit the scale of the depreciation, some of the central banks intervened on the currency market or raised their interest rates. Some of the Council members pointed to the fact that monetary policy tightening was conducted in economies characterised by heightened inflation and substantial external imbalances. Therefore, the increase in interest rates in these countries was supporting the restoring of their macroeconomic equilibrium – both internal and external.

In Poland the exchange rate of the zloty – i.e. the currency of a country usually included in the group of emerging markets – has weakened relatively slightly. According to the Council members, the resilience of the zloty to changes in the sentiment of the financial markets is supported by the relatively favourable economic situation in Poland, including the lack of any significant imbalances.

Referring to domestic economic growth, it was stressed that preliminary GDP data for 2013, as well as monthly data on economic activity and indicators of economic conditions point to a continued gradual recovery of growth. The Council members drew attention to the fact that the implied GDP data for 2013 Q4 confirm that net exports are still contributing substantially to GDP growth, while domestic demand remained weak (this relates in particular to investment demand). Some of the Council members argued

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that the current structure of GDP growth – based to a large degree on exports, with only a gradual recovery of domestic demand – supports the maintenance of low inflationary pressure and, at the same time, contributes to the Polish economy remaining balanced.

According to some members of the Council, in successive quarters – together with further improvement in growth prospects – investment activity should increase significantly. Some of the Council members argued that taking into account good financial situation of companies and low credit costs, relatively high capacity utilization should be a factor encouraging firms to invest. These Council members emphasised that favourable prospects for corporate investment growth are indicated by the NBP business tendency surveys, which show an increase in investment outlays planned for 2014, as well as an increase in the percentage of companies intending to begin new projects. A few of the Council members pointed out that the revival of outlays on fixed assets should also be supported by a rebound of investments related to further inflow of EU funds, in particular to the local government sector.

While analysing the prospects for further recovery in consumption, the Council members indicated that growth of disposable income is still low, limiting the increase in household expenditure. At the same time, a few Council members assessed that low inflation and a gradual improvement in the situation on the labour market will be conducive to the revival in individual consumption in the coming quarters.

While discussing the outlook for external trade, some members of the Council pointed out that low labour costs in Poland continue to support high price competitiveness of Polish goods abroad, and hence – exports growth. The favourable outlook for exports performance is also related to the anticipated acceleration of growth in Poland's main trading partner countries, as signalled by the upward revisions of their GDP growth forecasts. At the same time, a few Council members assessed that stronger import growth resulting from the expected investment revival will dampen the contribution of net exports to GDP growth.

While analysing trends in lending, some of the Council members pointed to the still weak credit growth. In particular, corporate lending for financing investment continues to rise only slowly, which – in the opinion of those Council members – indicates persistently high risk aversion on the part of both banks and enterprises. Yet, a few Council members stressed that growth in credit to the private sector has accelerated. They highlighted, in particular, the increasing availability of corporate credit, evidenced by the rising percentage of loan applications being approved. With corporate investment expected to accelerate in the subsequent quarters, this will facilitate a revival in lending to that sector, especially amidst banks' declarations of looser lending criteria for some types of loans.

Addressing labour market conditions, some members of the Council pointed out that so far they have been improving very slowly. In particular, employment growth is insufficient to bring down the unemployment rate. In effect, as at the end of 2013, the unemployment rate was still relatively high. A few Council members were of the opinion that since the probability of finding a job has risen – as has the ratio of non-subsidised vacancies to the number of the jobless – the outlook for labour market developments is favourable. In the opinion of those Council members, positive signs in this respect include also some improvement in willingness of increasing employment declared by enterprises and a decline in fears of losing a job reported by private individuals.

In the context of labour market impact on inflation, some of the Council members observed that the persistently high unemployment rate has a mitigating effect on both cost and demand pressures (on the former, by restricting wage pressure, on the latter, by reducing disposable income). Those Council members noted that in the past few years wage and unit labour cost (ULC) growth has been slow. A few Council members assessed that, also over the next few quarters, ULC growth should remain slow. Yet other members of the Council argued that in response to the improving economic conditions, wage pressure may materialise fairly promptly, hence the pace of ULC growth may pick up substantially within a short span of time.

While analysing inflation developments, the Council members highlighted that inflation – including core inflation – continued to be very low, and the available forecasts point to it likely remaining low also in the subsequent quarters. Low core inflation is supported by a further decline in producer prices and sustained low inflation in Poland's main trading partners. In turn, the risk of substantial rise in energy or food prices is constrained by the conditions in international commodity markets, where the moderate scale of global economic recovery is conducive to price stabilisation. Therefore there is no significant risk of inflationary pressure rising markedly in Poland in the nearest future. At the same time, a few Council members argued that in its monetary policy decisions the central bank should take into account the fact that the current low inflation is partly related to temporary factors remaining beyond the influence of domestic monetary policy.

The Council decided that the NBP interest rates should remain unchanged at the current meeting. Furthermore, the Council maintained its assessment that the gradual improvement in economic conditions was likely to continue over the coming quarters, while inflation pressure would remain limited. In this context, the Council confirmed that it would be justified to maintain the interest rates at the current level at least until the end of the first half of 2014. At the same time, Council members recognized that the findings of the March NBP projection would enable a more comprehensive assessment of medium-term outlook for inflation and economic growth.

The Council left the basic interest rates unchanged at the following levels: reference rate at 2.50%, lombard rate at 4.00%, deposit rate at 1.00%, rediscount rate at 2.75%.

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