MINUTES OF THE MONETARY POLICY COUNCIL DECISION-MAKING MEETING HELD ON 5 APRIL 2011

At the meeting, the Monetary Policy Council discussed the situation in the external environment of the Polish economy, the outlook for economic growth and inflation in Poland as well as the situation in the domestic labour market, including the risk of second round effects.

While assessing the external environment of the Polish economy, it was pointed out that activity growth in the global economy was stable. Yet, it was emphasized that uncertainty about its outlook remained high, and in the recent period was further exacerbated by the events in Japan, North Africa and the Middle East. Some members of the Council also indicated that recovery in many developed economies continued to be sluggish, and activity growth in the United States might not be maintained at the current, relatively high, level as it was largely supported by significant monetary stimulation. At the same time, attention was paid to a rapid GDP growth in emerging economies and in Germany, and emphasis was given to the strong business cycle synchronization between the Polish and German economies.

Some members of the Council also indicated that inflation remaining at a heightened level in emerging economies was accompanied by signs of growing inflationary pressures in developed economies. Those members pointed out that the central banks in many emerging economies and in some small open developed economies increased their interest rates considerably, and that the European Central Bank was likely to embark on monetary policy tightening in the coming period. Yet, other members of the Council emphasized that even after an increase the ECB's interest rates, similarly to other major central banks' interest rates, would remain at a low level. At the same time, some members of the Council assessed that likely continuation of the accommodative monetary policy in some major developed economies would act towards sustained high global liquidity, and, consequently, increased global inflationary pressure.

While discussing commodity prices in the world markets it was assessed that intensified activity of short-term investors in these markets contributed to the growth of these prices. In the opinion of some members of the Council this was indicative of a temporary character of commodity price increases and the coming months might be expected to bring a fall of these prices. According to those members of the Council, such an assessment is supported also by forecasts of improved supply conditions in the agricultural commodity markets in 2011. Other members of the Council assessed, however, that the rise in commodity prices was to a large extent driven also by growing demand from emerging economies, which indicates that despite possible temporary fluctuations in those prices due to the changing level of short-term investor activity in commodity markets the upward trend of these prices would continue.

With regard to the outlook for economic growth in Poland, some members of the Council pointed out that GDP growth in 2011 and in subsequent years was most likely to be close to, or slightly higher than, that recorded in 2010. It was assessed that GDP growth would be supported by growing external demand and a rise in domestic demand would mainly be driven by rising household consumption, supported by growing employment. Other members of the Council emphasized, on the other hand, that in the absence of recovery in corporate investment and in view of the likely weakening of infrastructure investments co-financed with EU funds, as well as in the face of the anticipated fiscal policy tightening, economic growth might be expected to slow down in subsequent years. It was also pointed out that growing commodity prices in the global markets might also be conducive to lower growth in investment and consumption.

With regard to the prospects for recovery in investment, some members of the Council assessed that corporate investment growth might be faster than currently expected, as suggested by: the growth in gross fixed capital formation in large enterprises in 2010 Q4, very good financial, including liquidity, situation of enterprises and steadily growing production capacity utilization, now exceeding the long-term average. Yet, some members of the Council emphasized that the degree of production capacity utilization in Poland continued to be moderate compared to other EU countries. Members of the Council also pointed at the continuing downward trend in construction and assembly production at the beginning of 2011 and the decline in the indicator of new investment in the enterprises survey. It was pointed out that continuing uncertainty about the future economic situation was a factor behind enterprises' lower propensity to invest.

While addressing the developments in individual consumption, some members of the Council assessed that its acceleration at the end of 2010 was not only due to advance purchases of certain goods in response to the expected changes in taxation starting from January 2011. In the opinion of those members of the Council this conclusion was suggested by the data on retail sales at the beginning of 2011. Yet, some members of the Council highlighted that monthly data on retail sales were highly volatile whereas high growth in retail sales in February 2011 resulted partly from a statistical base effect.

While discussing the situation in the labour market, some members of the Council assessed that the data released recently mitigate the risk of rapid build-up of wage and inflationary pressure. In particular, those members pointed at wage growth in enterprises slowing down at the beginning of 2011 and high unemployment level persisting as a result of a relatively rapid rise in the number of the economically active. At the same time, however, the uncertainty regarding the impact of the opening up of the labour market in Germany on labour supply in Poland was emphasized. Those members also pointed out that amidst the falling number of job offers, the labour market tensions indicator (number of job offers per one unemployed) was now at its lowest level in five years. Other members of the Council emphasized, however, that the decline in the number of job offers was driven mainly by the falling number of subsidized job offers which was not a good indicator of labour demand developments in the economy. Those members also pointed at the continuing relatively high employment growth in enterprises.

While discussing the developments in CPI inflation and its outlook, it was emphasized that its heightened level was mainly related to the growing prices of agricultural and energy commodities in the global markets, which had not been offset by changes in the zloty exchange rate, and – to a markedly lesser degree – by a rise in VAT rates. Some members of the Council pointed at a risk of inflation continuing to run above the upper limit for deviations from the NBP inflation target in 2011. Some members of the Council, on the other hand, assessed that following its temporary rise, inflation would fall markedly in the second half of 2011. At the same time, in the opinion of the majority of members of the Council, the risk of intensifying inflationary pressure resulting from the excessive demand growth was currently limited. Yet, some members of the Council pointed at the uncertainty regarding the potential output estimates and indicated at the risk of positive output gap being higher than in the March projection of inflation and GDP.

Some members of the Council emphasized that also a possible increase in wage pressure, driven by heightened inflation expectations could be conducive to a rise in inflation. In the opinion of those members of the Council, a marked rise in inflation expectations of both individuals and enterprises in the recent period was indicative of a higher risk of intensifying wage demands and their translation into wage growth, especially in view of a very good financial condition of enterprises. They pointed that the share of enterprises planning to increase wages in 2011Q2 was the highest in ten quarters. At the same time, some members of the Council emphasized that amidst heightened inflation expectations enterprises might show more propensity to shift higher costs to product prices. Other members of the

Council, on the other hand, pointed out that the risk of second round effects in a situation of high unemployment was uncertain. They emphasized that this risk was also reduced by the limited role of labour unions in the Polish economy.

With regard to the developments in loan aggregates, some members of the Council assessed that a rise in lending to the private sector was moderate and was not a factor behind higher demand pressure in the economy. Those members paid particular attention to the fact that the growth in housing loans weakened at the beginning of 2011 and investment loans to enterprises showed a low growth rate. A slump in consumer loans was also pointed out, yet it was emphasized that this was due to the banks' tightening their lending policies in response to worsening credit quality and regulatory changes. Other members of the Council assessed, on the other hand, that the growth in housing loans remained strong as compared to the growth in disposable income achievable under price stability. They also stressed that the low growth of corporate lending was connected with very good liquidity situation of enterprises and low level of investment activity.

While discussing the situation in the public finance sector, some members of the Council emphasized that in 2011 the expansionary fiscal policy would be continued which, in their opinion, required a tighter monetary policy. Other members of the Council assessed, however, that in the face of the anticipated tightening of fiscal policy in 2011 it was not a factor justifying interest rate hikes. At the same time, the uncertainty about the scale and structure of fiscal tightening in the coming years was emphasized.

While addressing the zloty exchange rate developments, some members of the Council assessed that a rise in the interest rate differential would support the appreciation of the zloty. Other members of the Council emphasized, however, that the impact of a higher differential on the exchange rate might be limited by the risk of revision of the current account deficit estimates, the uncertainty related to parliamentary elections and the continuing fiscal risk in some euro area countries.

The Council discussed the scale and pace of monetary policy tightening. Some members of the Council assessed that fast interest rate increases would constitute a more effective measure of curbing inflation expectations than gradual tightening of monetary policy. They also emphasized that a quicker ending of the cycle of interest rate increases would mitigate the uncertainty in the financial markets and could support the appreciation of the exchange rate of the zloty. Other members of the Council argued, however, that amidst persisting heightened uncertainty about the outlook for economic growth and inflation in the domestic and global economy, continuation of the gradual tightening of monetary policy was justified.

While analyzing the decision about changing the interest rates at the current meeting, some members of the Council represented the view that persisting uncertainty about the prospects of activity growth in the Polish economy and its environment justified keeping the interest rates unchanged. Yet, the majority of the Council members argued that a marked rise in inflation expectations combined with a strong growth in commodity prices in the global markets created, in a situation of continuing economic recovery, a risk of persisting heightened inflation. In order to contain the risk of inflation running above the inflation target in the medium term, it is justified to continue the cycle of monetary policy tightening and increase interest rates at the present meeting of the Council. Some members of the Council also indicated that the low level of real interest rates connected with inflation and, as a result, inflation expectations running at a heightened level was another argument in favour of interest rate increases.

A motion to raise the NBP interest rates by 25 basis points was put forward at the meeting. The motion passed. The Council decided to increase the interest rates to the following levels: reference rate to 4.00%, lombard rate to 5.50%, deposit rate to 2.50% and rediscount rate to 4.25%.

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