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

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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

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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%.

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