

## Minutes from the Monetary Policy Council Decision Making Meeting held on 3 June 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 external developments, Council members indicated that growth in global activity remained moderate, but economic conditions varied across countries. Some Council members emphasized that recent data on activity in the major economies had been weaker than expected. In particular, in the United States GDP unexpectedly fell in the first quarter, albeit probably only temporarily. In the euro area, GDP growth was low, and some economic indicators pointed to a slowdown in recovery in the manufacturing sector in May 2014.

During discussion of the euro area, some Council members pointed to a dispersion in economic growth rates within the region. In Italy GDP declined in 2014 Q1, and in France output did not change. At the same time, in Germany – Poland's main trading partner – economic growth accelerated. A few Council members cited downside risks for German exports: still relatively low economic growth in China and economic slowdown in Russia. Some Council members also emphasized that the weakening of the Polish trade with Russia and Ukraine, recorded already in 2013, had intensified in the first months of 2014.

While discussing monetary policy abroad, Council members pointed out that the ECB had hinted it might ease its monetary policy at the June meeting. Some Council members emphasized that although the Federal Reserve was slowly reducing the scale of quantitative easing, monetary policy was still highly expansionary also in the United States. They also indicated that monetary policy in Central and Eastern Europe remained accommodative, and the National Bank of Hungary (MNB) had recently decreased its base rate to 2.4%. A few Council members emphasized that even though monetary policy of many central banks had been expansionary in recent years, inflation remained low worldwide.

When discussing inflation developments abroad, Council members pointed out that inflation in the euro area was still low, not only owing to a fall in food and energy price index, but also due to low core inflation. It was noted that inflation in the euro area remained well below the ECB's definition of price stability. In this context, the opinion was expressed that persistence of low inflation impeded deleveraging in the euro area member states most severely affected by the debt crisis. It was also highlighted that inflation in Central and Eastern Europe had also declined in recent months to only slightly above zero, or even reaching negative levels. It was pointed out that a decline in

CPI inflation in Central and Eastern Europe over recent months was – like in the euro area – accompanied by a fall in core inflation.

Referring to the economic conditions in Poland, Council members indicated that GDP growth in 2014 Q1 had been close to the March projection and confirmed a gradual recovery of the Polish economy. Attention was paid to the favourable composition of GDP growth. In particular, there was an acceleration in domestic demand, especially investment demand, while foreign trade continued to record a surplus. However, some Council members pointed out that some indicators of activity in manufacturing sector had levelled off due to weakening in orders, employment and output sub-indices. In the opinion of these Council members, a decline in some economic indicators may reflect risks to further recovery of the Polish economy.

A few Council members noted that investment in Poland remained weak in relation to GDP compared to other countries in Central and Eastern Europe. They also indicated that the share of private investment was low compared to other EU member states. In this context, it was noted that corporate lending, including for investments, had rebounded.

Council members highlighted that the recovery in economic activity was translating into an improvement in the labour market conditions. Employment in the Polish economy is slowly rising, and unemployment is falling. It was emphasized that – in spite of a gradual recovery in the labour market – wage pressure remained limited, owing to a concurrent rise in labour force participation.

While discussing inflation developments, Council members pointed out that inflation had decreased in April, remaining markedly below the inflation target and considerably below the March projection. A fall in inflation in April was due to a decline in core inflation and falling food price growth. Some Council members indicated that a decline in inflation in recent months was driven by a fall in prices of an increasing number of goods. A few Council members also drew attention to continued fall in producer prices, decline in retail sales prices and further decrease in import prices.

With regard to expected inflation developments in months ahead, Council members pointed out that according to several short-term forecasts, inflation was likely to remain below the March projection. Some Council members also emphasized that – according to available forecasts – the probability of a temporary fall in inflation below zero in summer had risen. It was also noted that long-term breakeven inflation expectations had fallen. A few Council members, however, were of the opinion that – if the current pace of economic growth continued – a revival in demand pressure would be conducive to higher inflation. They also argued that due to reduced oil production in some countries, oil prices could rise in the coming period.

The Council decided that the NBP interest rates should remain unchanged at the current meeting. The Council maintained its assessment that the NBP interest rates should be kept unchanged until the end of 2014 Q3. While discussing future decisions, the majority of Council members pointed out that the expected inflation was lower than

in the March projection, while uncertainty had risen, particularly with respect to the pace of economic recovery in the coming quarters and the outlook for monetary policy abroad. Given this, Council members observed that a more comprehensive assessment of the monetary policy perspectives and potential adjustment of interest rates would be possible after the Council got acquainted with incoming information, including the July NBP projection.

The Council left the key NBP 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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