# Minutes of the Monetary Policy Council decision-making meeting held on 3 June 2015

Members of the Monetary Policy Council discussed the monetary policy against the background of the current and expected macroeconomic developments in Poland and abroad.

Analysing the economic conditions abroad, the Council members pointed to a pick-up in GDP growth in the euro area. It was indicated that economic activity in this economy was supported by a rise in consumption, associated with declining unemployment and a fall in fuel prices, which increased the purchasing power of households and improved the financial standing of enterprises. It was also emphasized that investment expenditures were accelerating, supported by positive corporate sentiment, the earlier depreciation of the euro and an improvement in the loan affordability following the introduction of the quantitative easing programme by the ECB. It was pointed out that lending growth was accelerating, as economic activity in the euro area was recovering. It was indicated that economic conditions improved also in the South European member states. Certain Council members emphasized that the forecasts for GDP growth in the euro area had recently been revised upwards. These members assessed that higher activity in the euro area had a positive impact on the Central and Eastern European economies.

Some Council members pointed out, however, that GDP growth in Germany had been lower than expected in 2015 Q1, posting a deceleration, which might nonetheless prove temporary. However, it was argued that the slowdown in GDP growth in large emerging market economies had been affecting economic activity in Germany. Certain Council members were of the opinion that lower growth in German exports to emerging market economies could have a negative, but limited, impact on Polish exports.

Some Council members stressed that in the United States the estimates for GDP growth in 2015 Q1 had been revised downwards, and that the GDP growth rate had turned out to be negative. It was assessed that the slowdown in GDP growth was primarily driven by the earlier appreciation of the US dollar, a severe winter and lower investments in the shale oil branch resulting from the earlier fall in crude oil prices. At the same time, it was pointed out that the decline in fuel prices, though sharper than in the euro area, had failed to stimulate consumer spending, yet had increased the savings rate. It was underlined that the slowdown in economic activity continued in early 2015 Q2. In addition, it was highlighted that the recent weaker data releases on the economic activity in the United States resulted in a setback in market expectations for the fed funds rate increase.

Certain Council members were of the opinion that the global imbalances, in particular excessive savings in some large economies, remained a drag on global and emerging market economic activity. They emphasized that global economic activity could be disrupted by the difficulty to stimulate consumer demand in economies with high savings rates.

Evaluating the financial market developments abroad, the Council members pointed to a recent rise in sovereign bond yields in many advanced economies, including the euro area member states. The rise occurred despite the EBC’s public sector purchase programme. It was assessed that uncertainty about the measures taken to overcome Greece's sovereign debt crisis could have been a driver of both the increase in risk aversion in the financial markets and the rise in price volatility of many financial assets. Some Council members also pointed to a recent increase in the prices in the global commodity markets, primarily for crude oil.

Analysing the domestic real economic conditions and the economic outlook, the Council members stressed that the Polish economy had continued to recover in 2015 Q1. It was also emphasized that GDP growth in 2015 Q1 had been higher than expected. It was pointed out that although domestic demand growth had ebbed somewhat, this was primarily due to a fall in inventories. It was also emphasized that household consumption had been rising and investment growth – despite a high statistical base – had also picked up. In addition, the Council members pointed out that net exports, supported by a gradual recovery in the euro area, contributed positively to the GDP growth rate in 2015 Q1. Some Council members indicated that Polish foreign trade had been in surplus for two years, and more recently a surplus was recorded also in the current account. Certain Council members expressed an opinion that these figures showed that competitiveness of the Polish economy was improving and that there were no significant threats to Poland’s external balance.

The Council members assessed that household consumption in Poland was supported by the ongoing improvement in the labour market conditions. They emphasized that unemployment had fallen and highlighted that the number of the employed had reached historical highs. Some Council members assessed that, although employment had continued to rise, no wage pressure had been observed in the economy thus far, as the growth rate in unit labour costs had been stable. In this context, it was cited from the NBP business survey results that according to the survey participants there was no risk of a considerable acceleration in wage growth in the enterprise sector in the near future. Certain Council members argued that the room for wage increases in the enterprise sector was limited, given that the rise in employment was accompanied by a relatively small pace of increase in production and hence labour productivity. Certain Council members indicated, however, that in their opinion the unemployment rate was currently already below the equilibrium unemployment rate, which might be conducive to a rise in wage growth in the future. Other Council members expressed an opinion that the wage level in Poland was low. According to these members, faster productivity growth could lead to higher wages in Poland provided that it was brought about by more innovation in the Polish economy.


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Referring to investment, attention was paid to an increase in the share of enterprises intending to launch new investment projects, as well as to a further recovery in construction. The Council members also argued that investment growth was supported by a very good financial position of enterprises and relatively high capacity utilization. Certain Council members assessed that corporate profits were supported by a fall in producer prices, as it reduced production costs more than revenues. Certain Council members, however, judged that financial costs and revenues had been playing a significant role in shaping corporate profits. They argued that higher consumer demand could result in a lower share of financial revenues in total revenues of enterprises, as it would increase the relative profitability of sales compared to the profitability of financial operations.

Certain Council members noted that the investment growth rate had been exceeding that of the production. They assessed that therefore investment growth could slow down in the coming quarters, regardless of the expected increase in investments financed with EU funds.

The Council members highlighted that despite the favourable GDP data for 2015 Q1, economic activity growth could ease somewhat in early 2015 Q2, as indicated by a deceleration in industrial production and retail sales, and a decline in certain economic indicators. Some Council members emphasized that although the source of this slowdown was difficult to identify and the degree of its persistence hard to assess at the time of the meeting, it would most likely prove temporary. Certain Council members were of the opinion that ongoing growth in the real disposable personal income would support economic recovery.

Some Council members judged that fiscal policy could be eased in the following year. Certain Council members indicated that wages in the general government sector might be unfrozen, and that public spending on benefits and allowances was likely to be increased. The risk of easier fiscal policy was – according to certain Council members – associated with the expected abrogation of the excessive deficit procedure against Poland, which would make more room for larger public spending. Other members argued, however, that the general government deficit might increase in an event of a slowdown in output due to fluctuations in the business cycle.

Analysing the situation in the financial sector in Poland, some Council members indicated that lending to the private sector continued to grow steadily, which supported economic growth but did not pose a threat to financial stability. They emphasized that decreases in the NBP interest rates had contributed to a significant decline in interest rates on loans to households and enterprises. In this context, some Council members marked that there were currently no signs of imbalances in the housing market and that the risk of excessive growth in mortgage loans was limited by macroprudential policy tightening through lowering the maximum loan-to-value ratio.

Certain Council members emphasized, however, that in recent years, despite decreases in the NBP interest rates, lending growth in the economy slowed down somewhat. They assessed that the interest rates on corporate loans declined in recent months less than the NBP interest rates. These members also pointed to a slower deposit growth in the banking sector and a likely acceleration in the pace of growth in the ratio of impaired loans for currency loans in an event of depreciation of the zloty. Other Council members assessed, however, that the value of the foreign currency loans in relation to GDP was low in Poland.

Discussing inflation developments in the economy, the Council members emphasized that the consumer price growth had increased in recent months. It was pointed out that deflation had eased primarily due to a rise in food and energy prices. The Council members pointed out that forecasts suggested further price growth. Yet, most Council members assessed that inflation would return to the target only gradually as producer prices had been declining for many quarters and inflation expectations of households and enterprises were very low. They also assessed that the output gap in the economy had been negative, which had been translating into very low or even – in most cases – negative core inflation measures. Certain Council members highlighted that inflation would be returning to the target very slowly also due to still low price growth in the environment of the Polish economy. Other Council members judged, however, that due to a marked recovery in demand, inflation might increase faster than expected in the latest NBP projection.

The Council members assessed that in the coming months, the annual price growth would remain negative, mainly due to the earlier sharp fall in commodity prices. At the same time, the expected gradual acceleration in economic growth, amidst recovery in the euro area and good domestic labour market conditions, reduced the risk of inflation remaining below target in the medium term. Therefore, the Council decided to keep 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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