Minutes from the Monetary Policy Council Decision Making Meeting held on 2 October 2013

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.

Referring to external conditions, it was noted that the global economic growth is moderate and there are no clear signals – neither from developed nor from developing economies – pointing to its significant acceleration in the coming quarters.

Members of the Council discussed in particular the situation in the United States, where before the beginning of a fiscal year, the U.S. Congress did not adopt the budget law. According to some members of the Council this may negatively affect US economic activity, although other members of the Council assessed that the impact will probably be limited. Yet – according to the Council – difficulties with the adoption of the budget in the United States may have a negative impact on negotiations about increasing the US debt limit, and so on sentiments in the global financial markets. At the same time, it was pointed out that the fiscal situation can be a factor discouraging the Federal Reserve from QE tapering.

While analyzing the situation in the euro area, some Council members pointed out that the situation in that economy is a bit better than before. They emphasized in particular that the slightly positive – for the first time in six quarters – euro area GDP growth in 2013 Q2 was supported by an increase in external demand (especially from the United States and Japan), a relatively stable situation on the financial markets of the euro area and an improved sentiment of both consumers and producers. It was noted that the high level of PMI and an increase of most of other economic indicators signal a high probability of euro area GDP growth remaining positive in 2013 Q3. At the same time, members of the Council pointed out that euro area GDP growth in 2013 Q2 was also related to one-off factors. Moreover, a few Council members argued that the lack of prospects for a considerable revival in economic growth in major emerging economies may have a negative impact on economic activity in Europe.

Some Council members argued that, given moderate recovery in the global economic growth, pressure on commodity prices will probably remain low. A few Council members noted that also the end of a period of high prices in the long-term commodity cycle may contribute to lower commodity prices in the coming years. Other Council members, however, pointed to a recent rise in enterprises' concerns about the future path of commodity prices. If these concerns prove to be justified, i.e., if commodity prices actually increase, the growth – due to its strong impact on domestic prices – may have significantly increased inflation in Poland.

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While analysing business conditions in Poland, some Council members noted that revival of economic growth is more gradual than in 2010. To a significant extent this is related to a persistently slower – as compared to the period prior to the global financial crisis – GDP growth abroad. According to a few Council members, economic activity might also be hampered by increased unemployment. In their view, unemployment – especially among young and low-skilled employees – is additionally raised by rising minimum wages in Poland, which exceeds average wage growth. Those Council member assessed, moreover, that both the persistently lower growth abroad and lower employment might negatively affect potential output growth in the medium term. Other Council members indicated, however, that the minimum wage in Poland was relatively low as compared to other EU countries and, in their opinion, it has no considerable impact on the levels of employment and unemployment in Poland.

While discussing the current business conditions, it was noted that some data on domestic economic activity proved worse than anticipated. In particular, the growth of industrial output and of construction output in August 2013 showed some deceleration of positive tendencies observed in the previous period – i.e. recently seen acceleration of industrial output was slower and decelerating fall in construction output was again somewhat more negative. At the same time it was emphasized that annual GDP growth would most likely be higher in Q3 as compared to Q2. In particular, favourable data on retail sales and improvement in leading business indicators, including a relatively high PMI, signalled steadily accelerating growth. Attention was also drawn to the signs of gradual improvement in the labour market. August saw a slight decline in the registered unemployment rate (in seasonal adjusted terms) and a further growth in employment in the corporate sector (in monthly terms). Moreover, a few Council members noted that activity is reviving in numerous sectors of the economy, which, in their opinion, reflects a broad-based and most likely robust economic recovery.

Some members of the Council argued, that despite gradually accelerating activity, output gap would continue to be negative in the subsequent quarters, hence, there was no substantial risk to price stability on the part of domestic factors. Those members – seeing also low risk of considerable increase in external inflationary pressures – expected that inflation would run below the target also in 2014. Members of the Council indicated that in line with forecast covering the next 4 quarters, inflation was expected to remain below the target. Also core inflation in a one year-horizon was about to run at a relatively low level, i.e. below the multi-year average.

Other Council members, however, pointed out that currently the potential output growth might be lower than implied by the available estimates, and thus, the negative output gap may get closed already in the near future. Furthermore – they believe – given the risk of inflation rising due to factors linked to food and energy prices, core inflation should run well below the currently forecasted values in order to expect that CPI inflation would remain within the tolerance band of deviations from the inflation target. In this context those Council members noted that inflationary expectations of enterprises

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recently increased somewhat, which was related in particular to their concerns about renewed rise in global commodity prices.

While analysing developments in monetary aggregates, a few Council members pointed to the change in term structure of households' assets. Primarily they stressed rising value of cash in circulation.

Council members agreed that interest rates should be kept unchanged at the present meeting, and the current and expected economic situation spoke in favour of keeping interest rates unchanged at least until the end of 2013. In the opinion of the Council, further ahead the level of interest rates would depend on the scale and structure of recovery and the resulting inflationary pressure. A few Council members indicated that the future monetary policy should also take account of the expected fiscal policy.

The Council decided to keep NBP's interest rates unchanged: the reference rate at 2.50%, the lombard rate at 4.00%, the deposit rate at 1.00%, and the rediscount rate at 2.75%.

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