NBP

National Bank of Poland
Monetary Policy Council

MINUTES OF THE MONETARY POLICY COUNCIL DECISION-MAKING MEETING HELD ON 9 NOVEMBER 2011

At its meeting, the Monetary Policy Council discussed the external environment of the Polish economy, present and future trends in domestic economic activity as well as the outlook for inflation returning to the target, also in the light of the NBP's November projection. In this context, the Council discussed the current and future monetary policy decisions.

While addressing the situation in the external environment of the Polish economy, the Council highlighted that although some current data for the United States and the euro area turned out to be better than expected, business conditions indicators pointed to weaker economic activity ahead. This was reflected in further downward revisions of GDP growth forecasts for major economies prepared by international institutions. At the same time some Council members emphasised that the resolution of the debt crisis in the euro area would be a long-lasting process, difficult in economic, political and institutional terms.

Some Council members assessed that the euro area would probably see a considerable and prolonged decline in GDP growth, resulting, among other factors, from fiscal tightening in many countries of the region, which would tend to weaken economic activity in Poland. These members pointed out that domestic growth might be particularly strongly affected, through a decline in Poland's foreign trade, by slower growth in Germany. Other Council members argued, however, that in spite of the expected significant economic slowdown abroad, Polish exports were likely to continue rising relatively fast, taking into account, among other things, the improved price competitiveness of Polish products due to the zloty depreciation observed in the past few months. Thus, in the opinion of these members, economic growth in Poland is not likely to see any considerable slowdown.

At the same time, a few members of the Council argued that the crisis in the euro area would have an impact on the Polish economy not only through a possible decline in the demand for Polish exports, but also through a possible decline in the supply of loans granted by foreign-owned domestic banks which, in line with the recommendations of the euro area summit, would strive to improve their capital situation. Some Council members argued, however, that business operations of domestic banks generated considerable profits for their foreign owners, and hence the risk of significant lending constraints was not great.

While addressing the euro area sovereign debt crisis-related tensions persisting in the European financial markets, and, in particular, the situation in the European banking system, it was indicated that these were likely to result in an outflow of capital from emerging markets, including those of Central and Eastern Europe and Poland. At the same time attention was paid to Poland's relatively volatile exchange rate. Some Council members also emphasized the fact that the zloty was currently relatively weak and might be expected to return to an appreciation trend if the situation in the financial markets stabilised.

While discussing the external conditions of economic activity in Poland, members of the Council pointed to the developments in global commodity prices, particularly the prices of energy commodities. It was emphasised that despite expectations of a material deterioration in business conditions abroad, there were no signs of any significant decline in these prices, which contributed to elevated inflation worldwide. Some members of the Council argued that high commodity prices were driven by long-term factors, i.e. continued significant demand, particularly from emerging economies, amidst a limited increase in supply expected over the next few years. Other members of the Council expressed the opinion that the elevated level of commodity prices was supported by considerable surplus liquidity in the financial markets related to the expansionary monetary policy continued by major central banks. With respect to the monetary policy pursued by major central banks, a few members of the Council also pointed to the fact that inflation was running high at the moment - especially in the United States and in the euro area - and the current and possible further monetary expansion could translate into a lasting increase in inflation in the external environment of the Polish economy.

As regards the assessment of the economic situation in Poland, it was emphasized that data on industrial production, construction and assembly output and retail sales proved better than expected and signalled a relatively good situation in the domestic economy. At the same time, it was pointed out that although subsequent quarters might bring an economic slowdown, as suggested by most forecasts, including the NBP's November projection, economic growth in the coming quarters might be faster than currently forecast owing to Polish companies' considerable resilience to the crisis abroad. In the opinion of some members of the Council, the sound financial condition of enterprises, high competitiveness of Polish goods in the global markets and a stable banking system were additional factors supporting GDP growth in Poland. A few members of the Council also pointed to externally-driven heightened uncertainty about further developments in the domestic economy which makes it possible for Polish GDP growth in the years 2012-2013 to be stronger as well as weaker than assumed in the projection. In the opinion of a few members of the Council, the shape of the government's post-electoral economic programme is also an uncertainty factor. Other members of the Council also pointed to certain signs which might indicate a slowdown in domestic economic activity, including, in particular, investment activity.

While discussing inflationary developments it was pointed out that a further drop in food prices had translated into lower inflation in September, but until the end of the year inflation might be expected to remain markedly above the upper limit for deviations from the inflation target. Some members of the Council emphasized that – in line with most forecasts – at the beginning of 2012 the waning impact of the VAT rate increase and the considerable rises in food and energy prices in the first half of 2011 would translate into a decline in the annual inflation rate, but in line with the NBP's November inflation projection the second half of 2012 might see inflation rise again. It was indicated that the zloty exchange rate continued to be a risk factor for inflation's lasting return close to the target. According to Council members, apart from the depreciation of the zloty, other factors driving up prices included the recent surge in fuel prices and an acceleration of PPI which might, with a certain time lag, affect consumer goods prices. A few members of the Council also pointed to the risk of higher than currently expected rises in administered prices, including a possible further increase in energy prices driven by the implementation of the EU Climate and Energy Package in Poland, which, combined with a relatively high, i.e. above the long-term average, core inflation level anticipated in the NBP's November projection, might contribute to extending the period of heightened inflation.

Members of the Council also pointed out that given the risk of weaker economic growth in Poland in subsequent quarters the probability of growing demand-driven inflationary pressure was small. It was also argued that the current situation in the labour market, including an elevated unemployment rate, a decline in employment in the enterprise sector and a fall in the number of job offers, as well as the absence of prospects for a marked improvement in the labour market, would be a factor curbing inflation.

While discussing the current level of NBP interest rates, the Council agreed that the anticipated decline in inflation in the Polish economy, related to slower domestic economic growth in subsequent quarters (as well as to base effects), justified keeping the interest rates unchanged. Such an assessment was also supported by the November projection of inflation and GDP. At the same time, it was pointed out that the impact of the situation in the financial market on the zloty exchange rate remained an upward risk factor for price growth.

While discussing future monetary policy, members of the Council pointed to the persisting considerable uncertainty about economic activity and inflation developments both in the global economy and in Poland. The majority of Council members upheld their assessment that given the expected macroeconomic scenario which assumed an economic slowdown and a concurrent gradual decline in inflation, the NBP interest rates could stabilize at the current level in subsequent quarters. It was also argued that a stabilization of monetary policy parameters was conducive to maintaining macroeconomic stability.

At the same time – similarly to the previous meeting – some members of the Council were of the opinion that in subsequent quarters the probability of interest rate increases was higher than that of interest rate cuts. Those members assessed that while inflation was considerably affected by external factors, should domestic economic activity prove resilient to the slowdown in GDP growth abroad and, hence, should the easing of inflation pressure due to worsened economic conditions turn out smaller than currently expected, an increase of NBP interest rates could be justified.

A few members of the Council pointed out, however, that the NBP's monetary policy was largely dependent upon the situation in the euro area where a considerable deterioration in the outlook for economic growth made the European Central Bank cut interest rates in November. In this context, those members claimed that at some point in the future cuts in NBP interest rates could be justified.

At the November meeting, the Council kept the interest rates unchanged at the following levels: reference rate at 4.50%, lombard rate at 6.00%, deposit rate at 3.00%, rediscount rate at 4.75%.

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