MINUTES OF THE MONETARY POLICY COUNCIL DECISION-MAKING MEETING HELD ON 23 DECEMBER 2009

During the meeting the Monetary Policy Council discussed the outlook for future economic growth and inflation in Poland, the monetary policy conducted by the Monetary Policy Council in its second term of office, and determinants of monetary policy in subsequent years.

While discussing the outlook for global economic growth, some members of the Council assessed the scale and sustainability of global economic revival as largely uncertain. Those members emphasised that improved activity to-date in the largest developed economies had been, to a large extent, the effect of fiscal stimulus packages. Those members also pointed out that, in line with economic growth outlook for 2010, strong GDP growth could be expected in Asian and Latin American economies as well as further improvement in economic activity in the United States with relatively lower GDP growth in European economies.

As regards the situation in the Polish economy, it was emphasised that the in-coming data, including data on export, industrial output and construction and assembly production, as well as economic situation indices illustrating enterprises' and households' sentiment confirmed the gradual recovery. However, some of the members pointed to risk factors underlying a prompt and sustained revival of the Polish economy. In particular, those members pointed to reduced lending to enterprises and a decline in loan growth to households, as well as to the persistence of an unfavourable situation in the interbank market, reflected in elevated spreads between the NBP reference rate and WIBOR rates. Those members also drew attention to the quick buildup of public debt and argued that its high level could adversely affect economic growth in the medium term.

While discussing current and future inflation the Council members pointed to the decrease in core inflation net of food and energy prices from 2.9% in October to 2.8% in November 2009. Some of the members were of the opinion, however, that core inflation stood at a relatively high level, which, given a likely improvement in global economic situation that potentially could trigger a rise in world prices for agricultural and energy commodities, posed a risk to maintaining inflation at the target in the medium term. However, other members maintained that given the persistence of the negative output gap in the Polish economy, a fall of inflation could be expected in subsequent quarters. Moreover, some members of the Council stressed that the risk of increased inflationary pressure in the Polish economy in the near future would be additionally contained by the still unfavourable situation in the labour market, despite some signals of improvement in recent months.

While discussing the effects of the monetary policy conducted by the Council in its second term of office, some members argued that the elevated CPI inflation in the years 2008-2009 indicated that in the earlier period the level of interest rates may not have fully accounted for future inflation risk. According to those members their view was supported by the persistence of relatively high core inflation in recent quarters, including the fast growth of market services prices. In their opinion, the key factors conducive to lower inflationary pressure in 2008-2009 and thus contributing to limiting inflation's deviation from the inflation target were the appreciation of the zloty in the period preceding the outbreak of the global financial crisis and the crisis-related decline of prices of agricultural and energy commodities in global markets.

Other members pointed to the fact that elevated inflation in recent years was mainly connected with factors beyond the direct control of domestic monetary policy. Those members argued that the strong rise in prices of agricultural and energy commodities in global markets at the end of 2007 and in the first half of 2008, which led to a rise in inflation in a number of countries, including Poland, was, among other things, connected with a quick increase in demand from emerging economies and legislative changes in the United States which excluded trade in commodity futures from the supervision of public institutions. They also stressed that the crisis-driven zloty depreciation which significantly exceeded the depreciation of the equilibrium exchange rate was conducive to the rise in inflation in Poland in 2009. Among the factors that had significantly influenced prices in the Polish economy, including their faster growth in recent years, the members indicated price liberalisation in certain domestic markets and increases of indirect taxes and administered prices. Those members also stressed that in that period there had been a very quick increase in loans in the Polish economy, which was connected with a strong inflow of capital to emerging markets.

It was stressed that the rise in the prices of services, which contributed to increasing inflation in Poland in 2008-2009, had probably been connected with changes in the structure of private consumption and was characteristic of countries undergoing the process of convergence.

When discussing the monetary policy conducted in the years 2004-2009, the members pointed out that one of the factors confirming the effectiveness of the policy was the fact that it had anchored inflation expectations at a low level. Some of the members also argued that given the lags between changes in NBP interest rates and their strongest impact on economic processes a comprehensive assessment of the monetary policy conducted by the MPC in its second term of office should account for inflation developments in 2010-2011. In this context the members of the Council pointed out that most forecasts available show a strong fall of inflation in 2010. They also argued that attempting to fully neutralise the impact of price shocks in global commodity markets on inflation in Poland would have led to excessive GDP fluctuations in Poland, including a likely GDP decrease after the outbreak of the global economic crisis.

While discussing the effects of the monetary policy conducted by the Council in its second term of office against the background of other countries, some MPC members pointed to the fact that in the years 2004-2009, in addition to shocks that impacted the world economy as a whole, such as commodity shocks and the global economic crisis, the Polish economy also underwent large changes connected with the accession to the European Union. Those members pointed to the fact that despite these shocks, inflation's average deviation from the target (0.3 p.p.), the volatility of the output gap and of central bank interest rates in Poland in 2004-2009 were among the smallest in countries which pursued inflation targeting with a continuous inflation target.

While discussing the monetary policy in the coming years, some members of the Council argued that an excessive rise in lending, in particular a rise in the market for mortgage loans, could pose a threat to price stability in the Polish economy over a longer time horizon. In addition, those members stressed that if the credit boom risk increased significantly, monetary policy would have to be tightened in Poland regardless of the relatively low CPI inflation. Since interest rate rises themselves would not eliminate the credit boom risk they should be complemented with appropriate supervisory measures.

While referring to the decisions on interest rates in the coming months the Council pointed out that in view of the low inflation pressure and the persisting threats to the sustainability of economic recovery in Poland, NBP interest rates should be left at an unchanged level in the near future. At the same time it was emphasised that in case of a significant economic revival in Poland, accompanied by a significant increase in inflationary pressure, a change to the monetary policy parameters could be required. Too strong and premature a monetary policy tightening in a situation of over-liquidity in global financial markets could, however, result in an excessive appreciation of the zloty. The situation of public finances will be an important conditioning factor to monetary policy.

The Council concluded that leaving the interest rates unchanged was justified by the information about the Polish and global economic situation that had been released since the previous meeting.

The Council left the interest rates at an unchanged level: reference rate at 3.50%, lombard rate at 5.00%, deposit rate at 2.00% and rediscount rate at 3.75%.

At the same time, the Council decided to introduce, starting on 1 January 2010, the discount rate on bills of exchange accepted from commercial banks for discount at the NBP. The Council set the discount rate at 4.00% on an annual basis.

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