Minutes from the Monetary Policy Council Decision Making Meeting held on 4 December 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.

While referring to economic activity abroad, the members of the Council pointed to global economic growth remaining moderate (due to persistently modest recovery in developed economies and historically low rates of GDP growth in emerging countries).

In particular, it was pointed out that economic conditions in the United States had improved, which was, however, partly driven by still highly expansionary monetary policy in that country. Some Council members emphasized that given the likelihood of the Federal Reserve starting QE tapering, the sustainability of recovery in the US economy was not certain. At the same time, these Council members were of the opinion that QE tapering might be accompanied by an easing of other parameters of the Fed's monetary policy, including changes to parameters of forward guidance. A few Council members pointed to the fact that QE policy had changed financial markets' response to macroeconomic data, and its withdrawal could trigger additional volatility in the financial markets.

While referring to the euro area, it was emphasised that due to the persistently high unemployment, the ongoing deleveraging process and uncertainty over the outlook for the euro area economy, GDP growth in 2013 Q3 was only slightly above zero. In the opinion of the Council, one could hardly expect its tangible acceleration in subsequent quarters. Some Council members indicated, however, that fiscal tightening had been scaled back in many euro area countries, which should have a positive impact on their economic growth in the short run. It was also pointed out that the November ECB decision to lower the main interest rate and the possibility of further easing of monetary policy in the euro area may support demand growth in that economy.

While analysing situation in the developing countries, some Council members indicated that growth outlook for major emerging economies had recently been revised downwards. In this context, a few Council members emphasised that the weakening GDP growth in those countries could be a long-lasting phenomenon, related the so called middle-income trap. Moreover, in the opinion of those Council members, cyclical factors (i.e. moderate scale of recovery in developed countries) also dimmed the prospects of a marked GDP acceleration in emerging economies (in particular in those that are commodity exporters).

While discussing inflationary processes, it was indicated that global inflation remained low, which was supported by moderate economic activity and a fall in commodity prices. Some Council members pointed to the recently rising risk of deflation

Narodowy Bank Polski ul. Świętokrzyska 11/21 00-919 Warszawa, Poland phone +48 22 185 28 88 sekretariat.rpp@nbp.pl

in some countries. In particular, it was probably the risk of inflation falling below zero that had made the ECB lower its main interest rate, and led the Czech National Bank to introduce an asymmetric exchange rate target.

At the same time, a few Council members assessed that the unprecedented scale of quantitative easing carried out by major central banks might, in the long run, fuel concerns about a substantial rise in inflation across the world. Other Council members indicated that the additional liquidity provided to the financial system by major central banks had not, as yet, translated into increased money supply. Therefore, no inflationary pressures were observed in the consumer goods market. In turn, a marked increase in asset prices amidst persisting moderate global economic growth proves, in the opinion of these Council members, that additional liquidity had been used to invest in financial assets.

While referring to domestic economic activity, Council members noted that GDP data had confirmed the continuation of a gradual recovery in 2013 Q3. At the same time, however, some Council members emphasized that although domestic demand had picked up – after a few quarters of a decline – its rise was small and net exports continued to be the main driver of growth. In this context, a few Council members pointed out that given the low growth in the external environment of the Polish economy and the persisting risk of deterioration in economic conditions abroad, the strength of further economic recovery in Poland was uncertain. At the same time, it was noted that there was some slowdown in industrial output and retail sales growth in October, which was however accompanied by further improvement in economic climate indicators (including PMI in manufacturing) and a smaller decline in construction and assembly output.

Referring to the situation in the labour market, it was pointed out that wage growth had accelerated slightly, which could support further rebound in consumption. At the same time, the still elevated unemployment rate showed that no loosening of wage discipline should be expected. In this context, it was emphasized that the growth of unit labour cost in the economy had remained low for the last few years.

While assessing the situation in the credit market, some Council members emphasized that easing of consumer loan policy of financial institutions, accompanied by an improvement in consumer sentiment, had contributed to a marked rise in these loans over the recent months (which supported recovery in consumer demand). The rise in consumer loans combined with a stable increase in mortgage loans, translated into gradual acceleration of lending to households. In turn, lending growth to enterprises remained low, in particular in the segment of investment loans. This may point to further sluggish growth in investment demand of corporations, above all under capacity underutilization in the economy. While discussing the developments in the banking sector, it was indicated that the growth in household deposits continued to weaken.

Referring to inflation, Council members pointed out that in October 2013 CPI had decreased and inflation had remained markedly below the target. In addition, it was

Narodowy Bank Polski ul. Świętokrzyska 11/21 00-919 Warszawa, Poland phone +48 22 185 28 88 sekretariat.rpp@nbp.pl

indicated that core inflation remained low, producer prices continued to decline, and inflation forecasts of financial sector analysts decreased. Some Council members emphasized that available forecasts pointed to a low risk of inflation exceeding the target in 2014. However, a few Council members noted the fact that core inflation ran at a level that in the past did not guarantee CPI inflation remaining within the tolerance band of deviations from the target.

In the opinion of the Council, NBP interest rates should remain unchanged at the current meeting. It was emphasized that the reduction in interest rates in the first half of 2013 and their stabilisation in subsequent quarters supported the recovery of the domestic economy, a return of inflation to the target and stabilisation in the financial markets.

The Council maintains its assessment that gradual economic recovery is likely to continue in the coming quarters, however, inflationary pressures will remain subdued. Therefore, the Council confirmed that it would be justified to maintain interest rates at current levels at least until the end of the first half of 2014.

The Council kept 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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Narodowy Bank Polski ul. Świętokrzyska 11/21 00-919 Warszawa, Poland phone +48 22 185 28 88 sekretariat.rpp@nbp.pl