

Minutes from the Monetary Policy Council Decision Making Meeting held on 9 April 2014

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 discussing external developments, it was pointed out that activity growth in the global economy is still moderate. The Council members noted that – after a temporary slowdown – the latest data point to improved economic conditions in the United States, while recovery in the euro area continues to be slow. At the same time, the Chinese economy is most likely slowing down further.

The Council members emphasised that inflation is low in many countries, which – if continues – may impede the deleveraging process in the largest economies. A few Council members referred to the factors which in their opinion may translate into a permanent decrease of global inflation. These factors include: a slower economic growth of the world economy and a downturn in the long-term commodity price cycle. Some of the Council members argued that for the next few years economic growth in the largest emerging economies will have a positive impact on the growth of global economic activity, which should be conducive to higher inflation around the world.

While analysing the external environment, it was pointed out that inflation in the euro area decreased to a very low level, which convinced the ECB to signal a possibility of further monetary policy easing. At the same time, however, a few members of the Council pointed out that low inflation in the euro area is mainly the result of strongly negative growth in energy prices – a favourable supply shock, which supports revival of the demand in this economy. Falling unit labour costs in member states most severely affected by the debt crisis is also a factor lowering inflation in the euro area. Decreasing unit labour costs help those countries overcome the recession, while preserving the competitiveness of German exports against countries outside the euro area. Those Council members also argued that a possible deflation in the euro area would not be significant enough to discourage agents from purchases, so the risk of second-round effects of price decreases is not significant. At the same time, in the opinion of those members of the Council, the continuation of highly expansionary monetary policy by the ECB – by increasing the risk of bubbles arising in the asset market – may even contribute to decreasing inflation. Other Council members assessed that possible emergence of expectations on falling prices may strengthen deflation tendencies in the euro area, and therefore the ECB will probably attempt to counteract this situation.

While analysing the outlook for economic conditions, it was pointed out that increasing importance of domestic demand in economic growth in Germany is a positive development. At the same time, some Council members stressed that the slowdown in

economic growth in China may be a factor of risk for the improvement of economic conditions in Germany, and thus also in Poland. A few Council members assessed that due to a sharp rise in Chinese internal debt after the global financial crisis, currently it is difficult to expect a stimulus to the Chinese economy.

The Council members pointed out another source of uncertainty surrounding the outlook for economic growth in Poland is the situation in Ukraine – including the scale of the expected recession in the Ukrainian economy and the risk related to disturbances in economic relations between Ukraine and Russia. It was indicated that possible escalation of the conflict between Ukraine and Russia may undermine Poland's trade with the Eastern markets. In the view of currently available information, it was judged that although the potential weakening in Poland's exports to the Eastern markets may negatively affect some companies, it will not be a factor significantly reducing economic activity growth in the whole economy.

While discussing the financial markets' response to the conflict between Russia and Ukraine, it was emphasised that the zloty exchange rate has remained relatively stable, the yields on Polish sovereign bonds have not changed significantly and the impact on stock valuations was temporary. In the opinion of some Council members, favourable foreign investor sentiment towards the Polish economy is supported by its strong fundamentals and the lack of macroeconomic imbalances.

While analysing current data, it was highlighted that the accelerating growth of industrial output and retail sales together with the rebound in construction activity confirm a continued gradual economic recovery. At the same time, strong readings of most business climate indicators suggest probable activity growth continuing also in the subsequent quarters. Some of the Council members assessed that the rise in GDP growth may be quite substantial due to the possible acceleration in corporate investment spending in the nearest future. However, at the same time, some Council members pointed to the weakening of firms' expectations regarding their export orders, which may signal slower external demand, stemming firms' propensity to invest. Furthermore, a few Council members argued that, as slower economic growth abroad is probably a more durable phenomenon, GDP growth in Poland may remain moderate. In their opinion, a factor which may hamper consumer demand growth is substantial long-term indebtedness of some households.

Council members emphasised that the recovery of the Polish economy is starting to translate into labour market conditions. Employment in the corporate sector is gradually rising, with a concurrent decline in unemployment. Yet it was stressed that the unemployment rate persists at an elevated level, which constrains wage pressure. At the same time, a few Council members argued that while wage growth continued to be moderate, yet – considering low inflation – households' real disposable income growth is rising, which supports higher consumption growth.

Some Council members emphasised that lending growth, while somewhat stronger, remains slow. It was observed that firms' higher propensity to invest – observed against

the background of low interest rates and improving business climate – is accompanied by higher corporate credit growth. At the same time, a few Council members observed that low interest rates on deposits continue to limit the incentives to save in the banking system.

While discussing inflationary processes, Council members pointed to inflation remaining markedly below the NBP inflation target, core inflation continuing at low levels, further decline in producer prices and low inflation expectations. Some Council members emphasised that the available forecasts pointed to a very slow increase in inflation and the absence of risks to price stability in the medium term.

The Council decided that the NBP interest rates should remain unchanged at the current meeting. Furthermore, the Council maintained its assessment that the NBP interest rates should be kept unchanged for a longer period of time, i.e. at least until the end of the third quarter of 2014. The Council members observed that a more comprehensive assessment of a need to change the horizon of keeping the interest rates at the current level will probably be possible during the July meeting of the Council, when a new NBP projection is to be presented.

The Council left the NBP interest rates unchanged at the following levels: 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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