

## **MINUTES OF THE MONETARY POLICY COUNCIL DECISION-MAKING MEETING HELD ON 7 SEPTEMBER 2011**

---

At its meeting, the Monetary Policy Council addressed the situation in the external environment of the Polish economy and the outlook for domestic economic growth and inflation. It also discussed future decisions concerning the NBP interest rates.

Members of the Council emphasized the recent considerable deterioration of the situation in the external environment of the Polish economy, including a stronger than expected slowdown in the United States and in the euro area, and weaker GDP growth in emerging economies, notably in China, as well as the mounting turmoil in international financial markets. It was pointed out that the flagging business sentiment was also, to a considerable extent, the effect of uncertainty about the effectiveness of political measures undertaken to resolve the fiscal crisis in the euro area. Moreover, the Council emphasised the significant downgrades of global growth forecasts by financial market participants, and the end of the cycle of interest rate increases by central banks in a number of small open developed economies and some developing ones.

In the opinion of some Council members, the risk of a global recession recurring has increased in recent weeks. However, according to other Council members, the current slowdown in key developed economies does not presage a forthcoming recession; it is rather a reflection of the reduced growth potential of those economies in the aftermath of the global financial crisis. In this context, these members emphasised particularly the adverse impact of the steep rise in public expenditure following the financial crisis on the private sector's propensity to invest and to consume. They also pointed to the constrained potential for funding private spending with more debt, since the level of that debt is already high. It was stressed that although it is difficult to assess the depth of the global economic slowdown, the risk of a sudden collapse in global business activity remains limited.

While discussing the impact of deteriorating external conditions on the prospects for the Polish economy, some Council members underlined the relative resilience of this economy to external shocks. They assessed that even in the face of slow economic growth in Poland's external environment, domestic GDP growth may remain steady, in particular - in the opinion of some Council members - exports growth may be sustained at a fairly high level. At the same time, the Council pointed to the risk of Polish exports weakening more markedly, should growth in China decelerate considerably, resulting in smaller exports from Germany to that country.

With regard to the economic situation in Poland it was emphasised that while GDP data indicate sustained relatively robust growth in 2011 Q2, incoming information implies it might lose momentum over the subsequent quarters. However, some Council members pointed out that the scale of the slowdown may be mitigated by a rise in private investment, which could be stronger than in the July NBP projection. In support of their position, those members cited higher than anticipated growth in gross fixed capital formation and a marked acceleration in investment outlays by large enterprises in 2011 Q2, as well as very good financial performance of enterprises. At the same time, it was pointed out, however, that the recently observed heightened uncertainty surrounding the outlook for demand may lower enterprises' propensity to invest, as also indicated by survey results. A year-on-year decline in the estimated costs of new investment started by large

companies in 2011 Q2 was also emphasized as a possible sign of corporate investment weakening in the coming quarters.

With respect to inflationary processes in Poland, it was highlighted that in spite of a fall in recent months, partially due to seasonal factors, CPI and core inflation persist at an elevated level. Sustained fast growth in producers' prices was also pointed out. In addition, the Council paid attention to the fact that while inflation expectations of market participants have fallen, households' inflation expectations continue to run relatively high. It was emphasised, however, that given the adaptive nature of these expectations, they are bound to decrease with a decline in current inflation.

The Council members argued that in light of available forecasts, it was reasonable to expect elevated inflation levels until the end of 2011, with a subsequent return to the NBP inflation target in mid-2012. It was emphasised that the monetary tightening implemented this year will be conducive to a fall in inflation. At the same time, it was pointed out that the return of CPI inflation to the target may be jeopardised by exchange rate developments, particularly amid the turmoil persisting in international financial markets. It was also noted that in the event of an economic collapse abroad, weak domestic GDP growth would probably coincide with a zloty depreciation, which would hinder the anticipated decline in inflation. Among the threats to lower inflation, a possible new increase in commodity prices was also pointed out, along with stronger than currently expected rises in fuel, food and administered prices.

As regards the conditions in the credit market, some Council members assessed that lending growth at the current rate does not, as for now, fuel inflationary pressures in the economy. They pointed, in particular, to a decline in consumer loans and a stabilization of growth in housing loans. However, other Council members highlighted the relatively high ratio of total consumer loans to GDP in Poland in comparison to other countries, adding that a reduction of this kind of debt would be welcome since it would be conducive to greater macroeconomic stability. Moreover, they assessed that given robust growth in housing loans and a continuing expansion in lending to corporations, the conditions in the credit market were conducive to higher aggregate demand in the economy.

When discussing the situation in the domestic labour market, the Council underscored weaker employment growth in the enterprise sector in the recent months, following a period of robust expansion, as well as the stabilisation of the unemployment rate at a relatively high level. Some Council members assessed that given the deteriorating outlook for demand, employment levels in enterprises may be expected to stabilise, or even fall slightly. It was also pointed out that given the circumstances, the wage pressure will probably remain limited.

With regard to monetary policy pursued amid mounting adverse trends in the external environment of the Polish economy, the Council members emphasised that monetary policy should foster sustained macroeconomic equilibrium. They pointed out that a monetary policy which takes macroeconomic stability into account will be conducive to maintaining price stability.

While discussing the NBP interest rates, the Council members agreed that these should remain unchanged at the current meeting. Arguments in support of this stance included the expected decline in inflation in Poland and a weaker outlook for growth in the global economy, and, in consequence, also in Poland.

The Council assessed that recently the balance of risks for inflation has become more balanced, adding that the current evaluation of the inflation and growth outlook for Poland did not imply a need to cut the NBP interest rates. At the same time, some Council members emphasized that the current level of the NBP interest rates was low against the background of their historical levels and vis-a-vis estimates of Poland's natural interest rate. Moreover, it was pointed out that the potential impact of the developments in global financial markets on the zloty exchange rate will constitute an upside risk factor to domestic inflation.

# NBP

In the opinion of the Council, the significant monetary policy tightening implemented since the beginning of 2011 should facilitate inflation's return to the target in the medium term. Given the above, the Council decided to keep the NBP interest rates at the current level. The Council does not rule out the possibility of further monetary policy adjustment, should the outlook for inflation returning to the target deteriorate.

The Council kept the interest rates unchanged at the following levels: reference rate at 4.5%, lombard rate at 6.00%, deposit rate at 3.00%, rediscount rate at 4.75%.

*Publication date: 22 September 2011*