Minutes from the Monetary Policy Council Decision Making Meeting held on 6 November 2013

At its meeting, members of the Monetary Policy Council discussed the current and future monetary policy decisions in the context of the macroeconomic developments in Poland and abroad, and the November projection of inflation and GDP.

While referring to economic activity abroad, it was indicated that in 2013 Q3 global economic conditions had improved somewhat. It was also pointed out that economic developments were diversified globally. In the emerging markets, economic growth has stayed low as for these economies. At the same time, growth is gradually accelerating in some developed countries, although downside risks to economic activity in the coming quarters persist.

While discussing developments in the United States, it was highlighted that the recovery was building up there, most notably in the manufacturing industry and in the labour market. At the same time, it was noted that economic data for September 2013 had been slightly weaker than expected. At the same time, risk of weakening economic activity prevailed due to uncertainty about future fiscal policy in the country and the temporary suspension of the activities of the federal government in October.

While discussing the economic developments in the euro area, it was pointed out that quarterly GDP growth in 2013 Q3 had probably remained positive. However, a few Council members noted that the economic recovery might not be sustainable in some euro area countries due to the persistence of risks in the banking sector in these countries. During the discussion the opinion was also expressed that – amid declining inflation in the euro area – the likelihood of further monetary policy easing by the European Central Bank had risen.

It was also noted that GDP growth in China had accelerated slightly in 2013 Q3. At the same time, it was highlighted that GDP growth had remained relatively low as for this country. A few Council members indicated that the persistently weak activity in major emerging market economies was due to both relatively weak economic growth in developed countries as well as relatively low domestic demand growth in emerging market economies.

While analysing developments in financial markets, some Council members indicated that the increase in risk aversion in 2013 Q2 and Q3 contributed – as in the case of other emerging economies – to a decline in non-resident holdings of Polish sovereign bonds and a depreciation of the zloty. It was pointed out, however, that the Polish currency had depreciated less than many emerging market currencies. Furthermore, it was emphasized that since August the zloty had appreciated. It was observed that relative stability of the zloty might have been, in particular, due to a reduction in Poland's external imbalance in recent quarters. At the same time, the gradual decline in

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the non-resident holdings of Polish sovereign bonds has been reducing the risks associated with debt financing by foreign capital.

While discussing the current economic developments in Poland, Council members pointed out that the data on domestic economic activity released since the previous meeting had shown further recovery, particularly in the industrial sector. It was however highlighted that some of the data had turned out to be weaker than anticipated, and the acceleration in output growth had so far lagged behind the rise in leading indicators. It was also pointed out that the main factor behind increase in activity had been external demand growth, while domestic demand growth had stayed limited.

Some Council members pointed to the ongoing stagnation in the labour market, including the persistently elevated unemployment. This has not, so far, been mitigated by the slight increase in employment observed in the corporate sector in recent months. Stagnation in the labour market leads to weak growth in wages, which reduces the cost and demand pressures in the economy.

Referring to the economic outlook, Council members pointed out that – in the light of the November projection – GDP growth was likely to continue to accelerate. Nonetheless, economic recovery will be still moderate, and thus the output gap will stay negative in the entire projection horizon. Some Council members pointed out that acceleration in GDP growth in the coming quarters should be driven by a recovery in domestic demand, especially investment, which would be supported by the inflow of EU funds under the new budget perspective. A few Council members pointed out, however, that slow growth in corporate lending might curb private sector investment growth.

Referring to the inflation projection, Council members emphasized that the projected inflation returned to the band for deviations from the inflation target in the projection horizon, but posed no threat to meeting inflation target in the medium term. Apart from weak demand pressure, low inflation – in light of the projection – should also be supported by weak pressure on global commodity prices. A few Council members pointed out that since the zloty might appreciate amid improvement in the domestic economic conditions, substitution of domestic goods with imported ones might prove to be another factor conducive to lower inflation.

According to a few Council members, inflation may rise above the projection, should demand pressure prove stronger than assumed in the projection, or should negative shocks occur in the commodity markets. Moreover, according to these members, the temporary inflation increase anticipated in the projection in 2014 Q2 could – if translated into higher inflation expectations – result in some reduction in the real interest rate. It was also noted that an upside risk to global inflation continued to be posed by highly expansionary monetary policy of the major central banks.

Council members agreed that interest rates should remain unchanged at the current meeting. It was pointed out that the reduction in interest rates in the first half of 2013 and their stabilization in the second half of the year supported the recovery of the

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domestic economy, return of inflation to the target and stabilisation in the financial markets.

The Council assessed that in spite of the expected acceleration of economic growth, GDP growth in the coming years (i.e. in the projection horizon) would remain moderate, and the risk of a substantial increase in domestic inflationary pressure, which would pose a threat to meeting the inflation target in the medium term, was limited. This assessment was also supported by the November projection of inflation and GDP. Therefore, the Council decided 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 the 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 to 2.75%.

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