

Minutes of the Monetary Policy Council decision-making meeting held on 6 April 2016

At the meeting, the Council members discussed monetary policy against the background of macroeconomic developments in Poland and abroad.

While discussing economic situation abroad, Council members recognised that global economic activity remained moderate. At the same time, it was stressed that uncertainty regarding the global economic outlook was still elevated. Council members pointed to continued economic recovery in the euro area. It was judged that growth in employment and wages in the euro area, as well as rising industrial output and some improvement in economic indicators, signalled further moderate growth in the coming quarters. It was pointed out that in the United States economic situation remained relatively favourable. However, it was underlined that recent incoming data made an accurate assessment of the economic prospects of the US economy difficult. It was emphasised that a source of uncertainty for the economic outlook in developed countries – both in the United States and in the euro area – was the scale of economic slowdown in the emerging economies and its impact on the developed economies. In this context, attention was drawn to the further deceleration in economic activity in China, indicated by slower growth in industrial output and retail sales as well as a sharp fall in exports. This notwithstanding, certain Council members drew attention to a slight recovery in investment in the Chinese economy in the recent period, which may be connected with an easing of economic policy and might signal lower risk of a significant economic slowdown in China in the coming quarters. Referring to the economic situation in other emerging economies, Council members underlined that Russia and Brazil remained in recession. The possibility of a further fall in energy commodity prices and the cessation of imports of these commodities by some countries was cited by certain members of the Council as a possible risk factor for the improvement in the economic situation in Russia and for the stability of Russia's public finances. In Brazil the economic outlook could be negatively affected by the deepening political crisis.

When discussing global commodity prices, Council members pointed out that despite a slight increase in the last two months, they remained at a low level. It was judged that low commodity prices were the key factor behind very low price growth worldwide. At the same time, attention was drawn to the significant volatility of commodity prices in the recent period and uncertainty regarding their future developments. Certain Council members expressed the opinion that in the coming months energy commodity prices, including oil, could once again decline. The factors conducive to possible decrease in prices of these commodities include increased supply of oil associated with the lifting of sanctions on Iranian oil exports in the absence of a significant reduction in oil production in the United States and the possible increase in energy commodity exports from Russia. However, other Council members were of the opinion that oil prices might increase in

the near future, should the OPEC countries and Russia reach an agreement on oil production limits.

It was noted that the increase in commodity prices and some weakening of concerns about global economic situation had improved the sentiment in the global financial markets in the recent period. As a result, the prices of many financial assets had risen, including share prices and exchange rates of emerging markets currencies. However, certain Council members judged that the improvement in market sentiment was temporary and that renewed decline in share prices in the global stock markets could not be ruled out in the coming quarters.

When discussing monetary policy abroad, it was pointed out that some central banks in Europe had lowered their interest rates in the recent period. Certain Council members underlined that currently it was difficult to assess the effectiveness of a further easing of monetary policy, especially considering the external nature of the shocks causing deflation. At the same time, it was judged that in the United States there was continued uncertainty regarding the future decisions of the Federal Reserve, although in the opinion of the Fed and the financial markets, interest rate hikes were likely in the coming quarters. In this context, attention was drawn to the risks associated with the withdrawal of the strong monetary expansion.

When discussing the economic situation in Poland, attention was drawn to the continuing stable economic growth in last several quarters. Some Council members judged that incoming data on industrial production and construction output signalled that GDP growth in 2016 Q1 might have been slightly lower than in the previous quarter, but still remained relatively high. It was pointed out that economic growth continued to be supported mainly by domestic demand. The growth of consumer demand was fuelled by rising employment and improving household sentiment. In turn, investment demand was supported by the sound financial standing of enterprises, their high capacity utilization and the relatively favourable prospects for demand. Certain Council members emphasized that despite the weakening of foreign demand, Poland had a surplus in trade of goods, which was supported by the high – despite a certain appreciation of the zloty in the recent period – price competitiveness of Polish exports. However, other Council members stressed that the trade surplus was partly the result of the falling commodity prices in the global markets. It was noted that the continuing good situation in the real economy was accompanied by a stable growth in lending, including a certain pick-up in growth in corporate credit.

While discussing the situation in the labour market, Council members pointed to the steady growth in employment and the falling unemployment rate, which was close to the pre-crisis level. It was underlined that despite this, the growth of average nominal wages in the economy was moderate. This led to continued low growth of unit labour costs. In addition, certain Council members pointed out that the level of wages most commonly earned by employees was significantly below the average and in the last several years its growth had been slower than that of average wages. However, other

Council members pointed out that the good situation in the labour market was reflected in the relatively high growth of the total wage bill, which was essential for growth of aggregate demand.

While discussing the economic outlook in Poland, Council members judged that the coming quarters were likely to see further stable and relatively fast economic growth. Certain Council members were of the opinion that GDP growth could even accelerate. It was pointed out that a factor supporting consumer demand growth would be the further increase in household disposable income resulting from both growing employment and nominal wages and the launch of the "Family 500+" programme. In turn, growing consumption, which improves the sales outlook of firms, could – according to certain Council members – lead to an acceleration in corporate investment growth. However, certain Council members pointed out that the propensity of firms to invest could be limited by the continued uncertainty regarding the economic outlook and business conditions. Certain Council members judged that the stable economic growth and improving labour market situation would lead to a gradual closure of the output gap and the approach of the unemployment rate to the equilibrium rate (NAWRU), which could lead to an increase in domestic demand pressure.

While analysing price developments in Poland, Council members discussed the methods of calculation and properties of particular measures of inflation, analysing, in particular, the influence of changes in the structure of the CPI basket on consumer price growth. Council members also analysed price developments in particular categories of goods and services and discussed the possible causes of the long-term fall in prices of some of those categories.

Referring to the current data, Council members pointed out that price growth remained negative. However, Council members emphasised that the continued deflation was still mainly driven by external factors – including the earlier fall in global commodity prices – which were beyond the direct impact of Poland's monetary policy. It was pointed out that the negative impact of external factors on domestic prices was so strong that it caused the core inflation indicators to fall below zero. However, it was underlined that these factors mainly reduced the prices of goods, while price growth of services remained positive. At the same time, it was stressed that there was still no wage pressure in the economy.

Some Council members pointed out that the continued deflation had not so far adversely affected the decisions of economic agents. In particular, it was underlined that it did not lead to the postponement of purchases by households or deferral of corporate investment. Certain Council members also pointed out that although inflation expectations of economic agents were running at a very low level, households failed to notice the fall in the general level of consumer prices. However, other Council members judged that the prolonged period of deflation might increase the risk of a permanent de-anchoring of inflation expectations, which might in turn have an adverse impact on the effectiveness of monetary policy in the future.

Council members underlined that at the end of 2016 price growth was expected to become positive. It was pointed out that growing consumer demand, supported by the "Family 500+" programme, as well as the expected increase in growth of unit labour costs resulting from the improvement in the labour market situation would contribute to increase in price growth. However, other Council members pointed out that the further fall in global energy commodity prices expected by these Council members and a reduction in the price of imported goods caused by appreciation of the zloty might have a negative effect on price growth in the coming quarters. In this context, attention was drawn to a certain strengthening of the zloty in recent months caused, among others, by the ECB's easing of monetary policy. Certain Council members stressed that in the medium term the increase in price growth might also be curtailed by growth in production capacity in the economy resulting from rising investment.

Referring to the level of interest rates in the economy, some Council members judged that the interest rate on corporate loans was currently relatively low. Certain Council members expressed the opinion that the cost of credit was not a factor curbing lending growth. In turn, other Council members pointed out that the low level of interest rates might reduce household demand for long-term savings instruments and thus limit the development of the domestic financial market.

While discussing the level of NBP interest rates, Council members decided that they should remain unchanged at the current meeting. Council members stressed that the continued negative price growth was mainly caused by external factors and deflation had no adverse effects on the decisions of economic agents. As a result, low price growth was accompanied by stable and relatively fast economic growth and steady tightening of the labour market. Certain Council members also underlined that the stabilisation of nominal interest rates amidst expected increase in price growth over the coming year would lead to a decline in real interest rates. Council members judged that in these conditions a stabilisation of interest rates helped to keep the Polish economy on a sustainable growth path. In addition, some Council members drew attention to the need to take into account the impact of the level of interest rates on the risk to financial stability.

Council members judged that the increased uncertainty regarding the domestic and external developments also spoke in favour of a stabilisation of interest rates. In this context, attention was drawn to the uncertainty regarding the outlook for fiscal policy in 2017, fears about a global economic slowdown and the risk of financial turmoil caused, among others, by the possible decision of the United Kingdom to leave the European Union. In the opinion of certain Council members, stabilisation of interest rates, which – in the face of monetary policy easing by central banks in the environment of the Polish economy – causes an increased differential between domestic and foreign rates, might reduce the vulnerability of both Polish assets and the exchange rate to a possible increase in risk aversion in the financial markets and a deterioration of investor sentiment.

Council members also argued that the stabilisation of interest rates ensured the room for their adjustment in the case of shocks adversely affecting the domestic economic situation and price developments. The majority of Council members did not rule out the possibility of interest rate cuts in the case of an economic slowdown in Poland and deepening deflation. Certain Council members argued that given the current level of interest rates – should interest rate cuts turned out to be necessary – a sharper interest rate adjustment would be possible.

In turn, certain Council members expressed the opinion that taking into account the relatively high GDP growth and the favourable outlook for economic growth, additionally supported by the reduced restrictiveness of fiscal policy, it would be justified to keep interest rates unchanged in the coming quarters. This assessment might even require considering the circumstances for a change in the monetary policy stance.

The Council decided to keep the NBP interest rates unchanged: the reference rate at 1.50%, the lombard rate at 2.50%, the deposit rate at 0.50%, the rediscount rate at 1.75%.

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