

Minutes of the Monetary Policy Council decision-making meeting held on 6 September 2017

Members of the Monetary Policy Council discussed macroeconomic developments abroad analysing their impact on economic conditions in Poland. Further signs of strengthening in global activity were indicated. In particular, attention was drawn to the pick-up in GDP growth rate in the euro area in 2017 Q2 and the improvement in many euro area economic indicators and sentiment indicators in 2017 Q3. While analysing economic developments in other economies, it was underlined that in 2017 Q2 higher GDP growth was also observed in the United States as compared to 2017 Q1, and monthly indicators suggested a continuation of favourable economic situation in that economy. It was also stressed that in both the euro area and the United States consumption remained the most important demand factor of economic growth. During the discussion it was also pointed out that GDP growth had stabilised in China in 2017 Q2, although at the same time attention was drawn to the imbalances that remained in this economy.

While discussing price developments abroad, it was emphasised that despite the ongoing global recovery, inflation abroad had remained moderate. In particular, it was pointed out that in the major advanced economies inflation continued to run below their respective inflation targets. While discussing factors impacting inflationary pressure abroad, attention was drawn to a slight increase in oil prices and their expected stabilisation in the coming years. In the opinion of Council members, owing in particular to the increased use of shale oil in the United States, oil prices have become less sensitive to changes in global economic conditions. Council members also pointed to the growth in US activity in the global gas market. In the opinion of Council members, as a result, the upward impact of energy commodity prices on inflation will probably be limited.

During the discussion on monetary policy abroad, it was pointed out that the European Central Bank was keeping interest rates close to zero, including the deposit rate below zero, and continuing its asset purchase programme. The persistence of moderate inflation in the euro area, related to low wage pressure in this economy and the appreciation of the euro, spoke in favour of preserving the strongly accommodative monetary policy of the ECB. It was indicated that low wage pressure and the appreciation of the euro increased the risk of another downward revision of inflation forecasts in euro area economy, despite the strengthening recovery there. As a result – as it was emphasised – inflation in the euro area would probably remain below the ECB's inflation target also in the coming years. In reference to the United States, it was underlined that the Federal Reserve would probably continue to gradually reduce the accommodative stance of its monetary policy, announcing in the near future the phasing out of reinvestment of maturing securities. At the same time, due to the decline in

inflation, the pace of further interest rate increases by the Fed may be slower than previously expected.

While discussing developments in Poland's real economy, Council members pointed out that in 2017 Q2 GDP growth was close to that observed in 2017 Q1. It was underlined that growth continued to be driven primarily by increasing consumer demand, supported by rising employment and wages, disbursement of benefits and very good consumer sentiment. However, investment growth was still weak, as the fall in corporate investment had deepened somewhat, despite high capacity utilization and a further improvement in business conditions. Council members judged that the gradual recovery in investment financed with EU funds suggested that total investment growth would be higher in the second half of 2017. At the same time, export growth proved slower than import growth in 2017 Q2, and as a result, the contribution of net exports to GDP turned negative. Council members indicated that the weakening of export growth could be related to the slowdown in Germany's export growth due to the strong ties between Polish and German producers within global supply chains. In view of the improving economic situation abroad, the weakening of export growth may, however, be a temporary phenomenon.

When referring to monthly data on economic activity in Poland at the beginning of 2017 Q3, Council members underlined that the data indicated a continuation of stable GDP growth. It was judged that further stable growth in retail sales amid very good consumer sentiment suggested continued high growth in private consumption. At the same time, attention was drawn to a certain slowdown in industrial output growth and a strong acceleration in construction and assembly output growth in July. Moreover, it was stressed that leading economic indicators suggested a continuation of favourable trends in the corporate sector.

When analysing inflation developments in Poland, it was indicated that the annual growth of consumer prices remained moderate and stood at 1.8% in August. At the same time, it was underlined that core inflation continued at a low level. Council members judged that inflation would remain moderate also in the following quarters. This will result from a gradual rise in domestic inflationary pressure stemming from improving domestic economic conditions, alongside a decline in import price growth due to the expected stabilisation of energy commodity prices and low inflationary pressure abroad. However, certain Council members indicated that further growth in food prices could be a factor increasing inflation in the coming quarters. In the opinion of some Council members, the November projection, taking into account the latest data, will be important for an assessment of the inflation outlook.

With reference to the situation in the labour market, it was stressed that the further growth in employment and reduction in unemployment in 2017 Q2 was accompanied by a pick-up in wage growth in the corporate sector and the economy as a whole. It was pointed out that compared to other countries of the region wage growth in Poland remained moderate and continued to be curbed by the inflow of employees from

Ukraine as well as by the further rise in the labour force participation rate among Poles. In the opinion of Council members, in the coming quarters wage growth could continue to increase due to the likely further rise in employment amid the emerging labour supply-side constraints. In the opinion of certain Council members, in particular the lowering of the retirement age could adversely affect the labour supply. However, other Council members judged that many people who will take retirement could remain active in the labour market, thus the impact of this factor on the labour supply may be limited.

Council members also discussed the size and structure of savings in the economy. It was pointed out that the total savings rate – with enterprises contributing the largest share of savings in Poland – exceeded the investment to GDP ratio. In reference to households, some Council members judged that their propensity to save depended to a large extent on the level of their disposable income, and should increase alongside a rise in employment and wages. At the same time, in the opinion of these Council members, the expected income from investing funds has less impact on the decision to save. However, other Council members argued that keeping NBP interest rates unchanged amidst gradually rising inflation could adversely affect households' propensity to save or encourage them to shift funds towards riskier assets.

While discussing NBP monetary policy, the Council decided that interest rates should remain unchanged. The Council assessed that, despite favourable economic conditions, good labour market conditions and wage growth continuing to exceed nominal productivity growth, inflationary pressure remained limited and there were no imbalances building up in the economy. At the same time, available forecasts indicate that in the coming quarters inflation will remain moderate. Therefore, in the Council's assessment, the risk of inflation running persistently above the target in the medium term was limited.

The majority of the Council members assessed that stabilisation of the NBP interest rates were likely in the coming quarters, since – given the available information – it had been helping to keep the Polish economy on a sustainable growth path and maintain macroeconomic balance. In addition, the majority of Council members assessed that the stabilisation of interest rates would support the expected recovery in investment.

In the opinion of certain Council members, should data and forecasts incoming in the following quarters suggest stronger inflationary pressure than expected at the time of the meeting, it might be justified to consider an increase in the NBP interest rates. In the opinion of these Council members, decisions on the level of interest rates should take into account in particular the impact of negative real interest rates on lending, asset prices and the savings rate in the Polish economy, while according to other Council members also on changes in unit variable costs.

A view was also expressed that in the event of a significant decline in economic indicators accompanied by a marked deterioration in consumer and corporate sentiment, it may be justified to consider a decrease in interest rates.

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%.

Publication date: 21 September 2017