

Minutes of the Monetary Policy Council decision-making meeting held on 7 June 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, particularly in industry and international trade. It was noted that the euro area recovery continued, as confirmed by an improvement in many economic activity indicators. However, certain Council members pointed out that despite better economic conditions in the euro area, growth in this economy remained relatively weak. The divergence of both current and prospective GDP growth rates among the euro area countries was also underlined. While discussing economic developments in other countries, attention was drawn to the slowdown in the 2017 Q1 GDP growth rate in the United States, with an emphasis on its temporary nature. At the same time, it was stressed that current data had slightly increased uncertainty about the pace of the pick up in the US economic activity in the coming quarters. It was also pointed out that in China, after a rise in GDP growth rate in 2017 Q1, current data did not indicate a sustained acceleration in economic activity, amid reinforced concerns about rising imbalances in the Chinese economy.

With reference to price developments abroad, it was emphasised that despite ongoing global recovery, inflation had stabilised at a moderate level or even slightly declined in some countries. It was judged that this had primarily resulted from the fading effects of the earlier rise in commodity prices, alongside still low domestic inflationary pressure in many countries. At the same time, attention was drawn to the fall in energy commodity prices since the previous Council meeting. In particular, it was indicated that despite the extension of the OPEC countries agreement on restrictions in oil production, oil prices had been lower than in recent months. This was the result of the increased extraction of shale gas in the United States and the still high stocks of this commodity. In the opinion of certain Council members, geopolitical factors related to increased tensions in the Middle East might have some impact on the energy commodity prices in the coming quarters.

During the discussion on monetary policy abroad, it was pointed out that the European Central Bank – amid still weak domestic inflationary pressure despite economic recovery – was keeping interest rates close to zero, including the deposit rate below zero, and was continuing its asset purchase programme. It was also observed that the Federal Reserve was continuing monetary policy tightening, signalling further interest rate increases and the possibility of decreasing its reinvestment of the principle payments from securities in the coming quarters.

Turning to situation in the international financial markets, it was emphasised that the sentiment in these markets had clearly improved since the beginning of the year, which was translated into an inflow of portfolio capital to many emerging economies and an

appreciation of their currencies. Attention was also drawn to the relatively high equity prices in the largest markets and their historically low volatility, which could reflect low risk aversion of investors.

While discussing developments in Poland's real economy, the Council members stressed that GDP data indicated a marked acceleration in economic growth in 2017 Q1. It was emphasised that growth continued to be driven primarily by increasing consumer demand, supported by rising employment and wages, very good consumer sentiment and disbursement of child and social benefits. At the same time, it was pointed out that investment growth rate in 2017 Q1 had been close to zero. As a consequence, as certain Council members stressed, the ratio of investment to GDP remained at a historically low level. Certain Council members judged that if investment growth stayed low, it would reduce the growth of potential output.

When referring to the monthly data on domestic economic activity, it was pointed out that in April a fall in industrial output as well as a slowdown in both construction and assembly output and retail sales were recorded, which, however, partly resulted from the lower number of working days than a year ago. At the same time, attention was drawn to the weakening of some leading economic indicators. The Council members judged that the recent data – though somewhat softer than expected – signalled stable economic growth in 2017 Q2. The Council members emphasised that economic growth in the coming quarters would be supported by the increased inflow of EU funds, translating into higher public investment. Certain Council members pointed out that a marked increase in public investment, along with a high degree of capacity utilisation, very good financial results of firms and growing domestic and foreign demand, should also boost the recovery in private sector investment activity. The Council members underlined that a more comprehensive assessment of Poland's economic outlook for the coming quarters would be possible after becoming acquainted with NBP's July projection of GDP.

When analysing inflation developments in Poland, it was underlined that annual growth of consumer prices remained moderate. At the same time, it was emphasised that core inflation, albeit gradually increasing, remained low. In addition, certain Council members drew attention to the higher growth in prices of services, which signals, in their opinion, the rising impact of the improvement in domestic economic conditions on consumer prices.

The Council members assessed that in the coming quarters consumer price inflation would remain moderate. They judged that this would be supported by the fading effects of the earlier increase in global commodity prices, with only a gradual rise in domestic inflationary pressure related to improving economic conditions in Poland. At the same time, it was stressed that wage growth in enterprises, despite the observed wage pressure amid historically low unemployment, recently had not picked up markedly. It was indicated that, as a result, growth of the unit labour costs remained moderate owing also to continued labour productivity growth. However, according to certain Council

members, in the coming quarters wage growth could increase due to the possibly lower migration to Poland after the lifting of visas for Ukrainian citizens by the EU, and also a possible decrease in the labour force participation in Poland following the introduction of lower retirement age. Moreover, certain Council members did not rule out that a recovery could translate into stronger growth of core inflation than currently forecasted.

While discussing NBP monetary policy, the Council decided that interest rates should remain unchanged. The Council assessed that, despite favourable economic conditions and good labour market conditions, inflationary pressure remained limited and there were no imbalances building up in the economy. At the same time, available forecasts indicate that inflation will remain moderate in the coming quarters. 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 was likely in the following 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, certain Council members argued 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.

The Council members concluded that a more comprehensive assessment of the monetary policy outlook would be possible after becoming acquainted with the incoming NBP's inflation and GDP projections.

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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