Minutes of the Monetary Policy Council decision-making meeting held on 11 January 2017

Members of the Monetary Policy Council discussed monetary policy against the background of macroeconomic developments in Poland and abroad.

The Council reviewed the developments abroad which affect economic conditions in Poland. It was pointed out that global economic growth remained moderate. It was emphasised that in the euro area economic growth was stable, yet conditions differed across countries. It was assessed that in Germany economic growth in 2016 Q4 had probably accelerated, yet slowed down in most other member states, including Italy. It was underlined that economic growth in Germany was supported by stable growth in consumer demand and acceleration in exports backed by recovery in global industry and the improved economic conditions in some Germany's trading partners. It was indicated that there were signs of a pick-up in economic activity growth in China and that expansion in the United States continued. Attention was drawn to very good consumer sentiment in the US and further improvement in the labour market in this country, reflected both in rising employment and wages. Certain Council members also noted that the unemployment rate in the United States had declined below its equilibrium estimates.

While discussing price developments abroad, it was emphasised that in recent months inflation had risen in many economies. It was stressed that in the euro area – despite some growth – inflation was still low as weak demand pressure continued. It was emphasised that higher global inflation was related mainly to a rise in prices of energy commodities, above all oil, over recent months. The Council members assessed that oil prices should not grow in the coming quarters due to high supply of this commodity boosted by a renewed increase of its production in the US and Iran striving to regain its market share. It was noted that the recent increase in oil prices was accompanied by a fall in prices of agricultural commodities, mainly cereals, which might additionally contain global inflation in the future.

Referring to monetary policy abroad, it was pointed out that the European Central Bank had kept interest rates close to zero, including the deposit rate below zero, and had continued financial asset purchases. It was underlined that in December 2016 the ECB had extended the asset purchase programme, reducing its monthly scale. It was assessed that this decision had resulted in looser monetary conditions in the immediate environment of the Polish economy. Attention was also drawn to an increase in the fed funds rate in December 2016 and its likely further increases in 2017. At the same time, it was stressed that – in line with projections of the FOMC members – the fed funds rate would probably not exceed its pre-crisis level over the longer run. The Council members also indicated that sentiment in the financial markets had improved of late.

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While discussing developments in Poland's real economy, it was assessed that in 2016 Q4 GDP growth was probably still subdued. Available forecasts indicate that GDP growth was curbed by the fall in investment resulting mainly from a temporary decline in the use of EU funds after the completion of the previous EU financial perspective. As some Council members underlined, investment growth had been also curbed by the uncertainty in the enterprise sector. It was pointed out that economic growth had been supported by growing consumer demand, an improvement in the labour market, very good consumer sentiment and the child benefit payments.

During the discussion on the labour market conditions, attention was drawn to ongoing stable growth in employment in the enterprise sector and the low unemployment rate. It was also stressed that the Labour Force Survey in 2016 Q3 had shown weak growth in the number of the employed in the economy. It was assessed that slower employment growth could reflect the deceleration in GDP growth and labour supply constraints. It was pointed out that wage growth had been moderate so far, but might accelerate in the coming quarters. In this context, attention was drawn to higher wage demands indicated by enterprises in 2016 Q4. It was also underlined that in 2017 wage growth would be additionally supported by a minimum wage hike.

Council members assessed that the slowdown in GDP growth observed in the second half of 2016 had been temporary and that in 2017 economic growth should accelerate. In the opinion of the Council members, the acceleration in GDP growth in the coming quarters would be supported by a gradual increase in investment growth and stable rise in consumption. It was emphasised that monthly data signalled some improvement in economic activity over the recent past. It was indicated that industrial output, construction and retail sales growth in November 2016 all had come out higher than expected, while industrial sentiment had improved markedly in December. Certain Council members additionally drew attention to notable acceleration in production of minerals used in construction in late 2016. In their opinion, this could point to recovering investment in structures. In the assessment of certain Council members, investment growth would also be supported by the recently launched "Housing Plus" scheme. The majority of the Council members were of the opinion that – given good labour market conditions and the child benefit payments – consumer demand outlook remained favourable. However, it was pointed out that higher prices of energy, including fuels, would reduce spending capacity of households and companies, weighing on demand growth in the economy. Certain Council members pointed to recent downward revisions in economic growth forecasts by some institutions.

While analysing price developments in Poland, it was stressed that in December 2016 the annual growth in prices of consumer goods and services had picked up notably, but remained moderate. Attention was also drawn to ongoing acceleration in producer prices. It was noted, however, that price growth was mainly supported by energy commodity prices being higher than a year before and stronger US dollar. It was argued that price growth was still contained by low inflationary pressure abroad and negative

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output gap in the domestic economy. In this context, some Council members pointed to core inflation remaining close to zero.

The Council members assessed that price growth would continue to increase in the coming months, supported by energy prices being higher than a year before and the expected acceleration in economic growth. Attention was also drawn to recent upward revisions of price growth forecasts for Poland. Some Council members assessed that inflation might rise faster than currently anticipated. They pointed to probable increase in wage growth in the coming quarters and assessed a rise in demand pressure as likely. Other Council members emphasised, however, that price growth in the coming months would remain moderate, and that the current forecasts did not indicate any risk of overshooting inflation target in the coming quarters. These Council members also stressed that despite an increase in wage demands indicated by enterprises, wage growth was moderate, and only slightly exceeded labour productivity growth. Moreover, as further rise in commodity prices is currently not expected, this factor will prop up inflation only temporarily. It was also indicated that economic growth in the coming quarters would probably not significantly outpace potential output growth, thus demand pressure would remain contained.

While discussing the NBP interest rates, the Council members judged that they should be kept unchanged. Council members emphasised that although the current price growth had picked up significantly in recent months and inflation forecasts had been revised upwards, this was mainly driven by external factors whose impact should dissipate in the medium term. At the same time, it was pointed out that, along with rising inflation, interest rates in real terms would decline, which should support the expected acceleration in economic growth. The Council confirmed its assessment that the stabilisation of the nominal interest rates helped to keep the Polish economy on the sustainable growth path and maintain macroeconomic stability.

The Council members pointed out that in light of information available at the time of the meeting, stabilisation of the NBP interest rates in the following quarters was the most likely scenario. Certain Council members believed, however, that given the expected rise in inflation and the related reduction of interest rates in real terms, it might be justified to consider interest rate hikes in the future. In the opinion of these members of the Council, interest rate decisions should take into account their impact on savings in the Polish economy. Other Council members judged that the Council decisions should account for their impact on the interest paid on loans. Some Council members argued, however, that given no risk of overshooting the inflation target in the coming quarters, it was difficult to assess when it might be justified to consider an increase in the NBP interest rates. Moreover, certain Council members pointed out that the rise in the interest rates could adversely affect corporate investment growth.

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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% and the rediscount rate at 1.75%.

Publication date: 26 January 2017

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