Minutes of the Monetary Policy Council decision-making meeting held on 10 January 2018

Members of the Monetary Policy Council discussed macroeconomic developments abroad, analysing their impact on economic conditions in Poland. It was observed that the recovery continued in the global economy, which was accompanied by a further rise in international trade. It was pointed out that the recovery in economic activity in the euro area continued, supported by improving labour market conditions, very strong business confidence and robust external demand. The recent upward revisions of the 2018 GDP growth forecasts for this economy were brought to attention. Other developments referred to in the course of the discussion included the favourable economic conditions in the United States and only a slight weakening of activity in China.

Referring to price developments in the world economy, it was underlined that, despite the global recovery, inflation abroad remained moderate. It was assessed that this was caused by the persistently weak domestic inflationary pressure in many countries and the disinflationary factors related to global supply chains. In particular, the still moderate price growth in the euro area was highlighted, along with the downward revision of the 2018 core inflation forecasts for this economy.

While analysing developments in commodity prices, it was pointed out that oil prices had increased recently. It was noted that the rise had mainly resulted from the reductions in output and inventories of oil, and from the extension of the agreement concluded by oil-exporting countries. Some Council members expressed the opinion that a stabilisation of oil prices was likely in the coming quarters, which would be supported by higher supply of shale oil from the United States.

Regarding monetary policy abroad, it was noted that despite the improvement in the outlook for economic conditions in the euro area, the European Central Bank had not changed its monetary policy stance. The ECB was keeping interest rates close to zero, including the deposit rate below zero, and continued its financial asset purchases. Moreover, the ECB was still announcing that interest rates would remain at their current levels, even after the end of the asset purchase programme.

While discussing the developments in Poland's real economy, it was assessed that the GDP growth in 2017 Q4 had probably been close to that observed in 2017 Q3. It was highlighted that growth was still driven primarily by consumer demand, supported by rising employment and wages, disbursement of child benefits and very high consumer confidence. Available data also reveal accelerated investment growth, although, as it was emphasised, this was mainly due to a pick-up in public investment. At this point certain Council members highlighted that growth of private investment, which is to a greater extent reliant on the expected return and risk than public investment, remained weak. These members observed that a rise in corporate high-tech investment was important for the prospective competitiveness of the Polish economy. It was also pointed out that the

Narodowy Bank Polski ul. Świętokrzyska 11/21 00-919 Warszawa, Poland phone +48 22 185 28 88 sekretariat.rpp@nbp.pl

relatively fast growth of exports, supported by the recovery in the immediate environment of the Polish economy, including Germany, was an additional driver of GDP growth.

With reference to the prospects for economic growth, it was assessed that favourable economic conditions would continue in the coming quarters, although GDP growth would probably slow down compared to the second half of 2017. Despite the gradual fading of the statistical effects of the "Family 500 plus" programme, rising consumption will continue to support economic growth. At the same time, a further pick-up in investment growth is anticipated, as signalled by the increasing absorption of EU funds. Some Council members judged that given the need for firms to expand their production capacity amid the persistently robust demand, corporate investment growth would also accelerate in the coming quarters. Moreover, exports would add to economic activity growth. Some Council members emphasised that the increase in external sales might be higher than previously expected due to the improvement in the outlook for economic growth in the euro area. At the same time, some Council members expressed the opinion that the pace of export growth might be dragged down by the exchange rate of the zloty being stronger than in the previous quarters. In the opinion of other Council members, in turn, the level of the exchange rate is still higher than the average export profitability exchange rate as declared by enterprises. These members also emphasised the considerable import intensity of export production, limiting its sensitivity to exchange rate changes.

Analysing the developments in the labour market, it was observed that despite the recruitment difficulties reported by some companies, employment in the corporate sector continued to rise strongly. It was indicated that this was accompanied by faster growth in corporate sector wages than in previous quarters. In effect, wage bill growth was also higher, yet, as some Council members stressed, it did not exceed industrial output growth. As a result, the majority of the Council members judged that the labour market did not generate any significant inflationary pressure for the time being. In the opinion of some Council members, the coming quarters may see a further acceleration in wage growth in companies. However, wage growth in the entire economy will continue to be contained by the wage freeze in the public sector as well as an increase in the labour force participation rate and a further inflow of employees from the East. At the same time, it was underscored that the unit labour cost growth will be dampened by the higher GDP growth in 2018 than previously expected. Certain Council members assessed, however, that wage pressure might increase substantially in the coming quarters. These members pointed to the risk of wage demands arising in the public sector, and a likely increase in demand for labour related to a further investment recovery. At the same time, they judged that the potential for a further rise in both labour force participation rate and inflow of foreign workers was limited. Certain Council members were of the opinion that after the lowering of the statutory retirement age labour supply would be contained as a considerable part of the eligible employees would retire. Yet other Council members underlined that the scale of this impact would be limited due to the high proportion of non-working persons among those retiring and a probability that many retired employees would remain active in the labour market.

While analysing inflationary developments in Poland, it was pointed out that the annual consumer price growth had decreased in December. It was noted that inflation was still being boosted by high food prices. At the same time, core inflation net of food and energy prices remains low due to the moderate growth in prices of services and the continued fall in prices of goods. In the opinion of the majority of the Council members, this indicated limited demand pressure. Certain Council members underlined that price growth took place amid continued moderate lending growth. It was also indicated that there was a marked slowdown in producer price growth despite a significant increase in industrial output.

Referring to the outlook for inflation, it was noted that in the coming months changes in energy and food prices, as well as the so-called statistical base effects, would have a strong impact on price developments. It was underlined that low price growth in the environment of the Polish economy and the stronger zloty than in the previous year would continue to have a curbing effect on inflation growth. The majority of the Council members judged that in the light of the current information the average level of inflation in 2018 would be somewhat lower than 2.5%, and in the projection horizon it would remain close to the inflation target. Some Council members emphasised that such an assessment was consistent with the expectations of financial analysts. Certain Council members drew attention to a rise in consumer and enterprise inflation expectations in the recent period. They also pointed to the expected higher growth in prices of services in 2018 compared to 2017, which, in the opinion of these Council members, could be evidence of growing demand pressure.

While discussing NBP monetary policy, the Council decided that currently interest rates should remain unchanged. The Council judged that – given the available information – inflation would remain close to the NBP inflation target over the projection horizon. As a result, the current interest rate level help to keep the Polish economy on a sustainable growth path and maintain macroeconomic stability.

The majority of the Council members expressed the opinion that, taking into account current information, interest rates were also likely to remain stable in the coming quarters. These members judged that the stabilisation of interest rates would continue to help meet the inflation target, while supporting the maintenance of the balanced economic growth, including the expected further recovery in investment. Moreover, these Council members pointed out that the need to take into account the monetary conditions in the immediate environment of the Polish economy, including the likelihood of the maintenance of negative interest rates in the euro area, also spoke in favour of keeping the current level of interest rates in the coming quarters.

In the opinion of some Council members, should data and forecasts incoming in the following quarters suggest a more marked intensification of inflationary pressure than expected, most notably associated with a possibility of a stronger acceleration in wage

Narodowy Bank Polski ul. Świętokrzyska 11/21 00-919 Warszawa, Poland phone +48 22 185 28 88 sekretariat.rpp@nbp.pl

growth, it might be justified to consider an increase in the NBP interest rates in the quarters to come. In the opinion of these Council members, developments in inflation expectations would also be important for monetary policy. At the same time, these members emphasised that in the light of recently released data the risk of a marked increase in inflationary pressure was lower than previously assumed. A view was expressed that in the event of a significant decline in economic indicators accompanied by a marked deterioration in consumer and corporate sentiment, in the longer run it might be justified to consider a decrease in interest rates. However, it was underlined that currently, given very favourable economic conditions and very strong confidence of economic agents, there was little likelihood of a decrease in interest rates in the coming quarters. It was also pointed out that the March projection of inflation and GDP would be an important prerequisite for an assessment of the outlook for monetary policy.

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: 1 February 2018

Narodowy Bank Polski ul. Świętokrzyska 11/21 00-919 Warszawa, Poland phone +48 22 185 28 88 sekretariat.rpp@nbp.pl