# Minutes of the Monetary Policy Council decision-making meeting held on 3 February 2016

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

When discussing economic activity abroad, it was highlighted that recovery in the euro area was progressing, supported by consumer demand growth fuelled by improving labour market conditions. However, certain Council members stressed that, despite economic recovery, GDP growth in the euro area remained relatively weak. Attention was drawn to recent economic developments in the United States, which remained favourable, notwithstanding a slowdown in the second half of 2015. At the same time, the Council members emphasized that economic conditions in emerging market economies were deteriorating. It was highlighted that GDP growth in China continued to slow down and underlined that it could decelerate further due to significant imbalances in China and limited scope to stimulate this economy. The Council members also pointed out that Brazil, Russia and Ukraine remained in a deep recession. Some Council members emphasised that deteriorating economic conditions in emerging market economies had already led to a decline in export growth of Germany, Poland's main trading partner, which could in turn result in weaker growth of Polish exports.

It was underlined that deteriorating economic conditions in emerging market economies could result in lower growth in other economies. In consequence, risk aversion in international financial markets has risen and global financial asset prices have fallen markedly. In this context, it was highlighted that many emerging market currencies, including the zloty, had also depreciated.

The Council members also noted that prices for crude oil and other commodities were still very low. It was assessed that low commodity prices were conducive to slower price growth worldwide. Certain Council members underlined that in some countries lower commodity prices were translating into larger purchasing power of households and higher consumer spending. At the same time, some Council members indicated that in commodity exporters, the fall in commodity prices resulted in decelerating economic growth, in some cases even in a recession. These Council members stressed that declining mining investment expenditures were one of the main reasons behind the economic slowdown in the United States in the second half of 2015.

Some Council members pointed to a recent rise in uncertainty regarding the world economic outlook, including not only the emerging market economies, but also the United States. Therefore, the Federal Reserve indicated that interest rates in the US might be raised at a slower pace than previously expected. The ECB, in turn, pointed to a likely increase in monetary expansion in the coming months, as the inflation forecasts for the euro area had been revised downwards due to falling commodity prices. Some Council members judged that the more expansionary monetary policy outlook in the core economies might have contained the fall in Polish financial asset prices and the depreciation of the zloty.



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While analysing the economic conditions in Poland, attention was drawn to preliminary estimate of national accounts for 2015 that pointed to an acceleration in GDP growth in 2015 Q4. It was underlined that domestic demand remained the main driver of economic growth. It was highlighted that investment and consumption growth had probably accelerated slightly in 2015 Q4 on the back of improving labour market conditions, envisaged by a further fall in unemployment rate, continued high employment and stable wage growth. The rise in demand is also supported by positive consumer sentiment, good financial standing of enterprises and their high capacity utilization. However, certain Council members noted that sentiment in industry had deteriorated somewhat of late, but stressed that it was not reflected in broader data on economic activity. Some Council members indicated that despite deteriorating conditions in the emerging market economies, Polish exports continued to grow and external trade balance remained positive.

Discussing the economic growth outlook, the majority of the Council members judged that it would most likely remain stable in the coming quarters. They highlighted that consumer demand growth in the near future could be supported by a likely further improvement in labour market conditions, the recent renewed fall in fuel prices and a rise in disposable income of some households resulting from family benefits (*Family 500+* government programme, which is to be launched in the coming months). Moreover, certain Council members argued that the recent depreciation of the zloty could improve price competitiveness of Polish exports, leading to higher GDP growth. Some Council members also pointed to high capacity utilisation in the economy, which should support replacement investments of enterprises, particularly given ongoing high industrial production growth. Corporate investment growth will also be supported by good financial standing of enterprises. However, as highlighted by some Council members, the fall in commodity prices has an adverse effect on the profitability of the Polish energy industry. Certain Council members expressed concerns that rising risk in the environment of the Polish economy might prove a drag for economic growth in the coming quarters.

During a discussion on inflation developments in Poland, it was stressed that price growth remained negative. It was highlighted that price growth most likely would stay below zero for longer than previously expected. The main reasons for that are the fall in crude oil prices in the recent months and a reduction in energy tariffs on sale and distribution of gas and electricity for households effective from the beginning of 2016. It was underlined that price growth was also contained by the lack of inflation pressure resulting from a negative output gap as well as no wage pressure despite improving labour market conditions. Moreover, certain Council members were of the opinion that a Russian embargo on Polish food exports was also contributing to lower food prices in the domestic market.

Council members assessed that stable economic growth should support a gradual rise in core inflation, thus contributing to higher CPI growth. At the same time, some Council members pointed to upside risks to price growth in the coming months. Some of them pointed to a rise in probability that the output gap might close earlier than previously expected given a likely acceleration in consumption growth. In consequence, there is a risk



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that demand pressure might occur. These Council members also pointed to the risk that a positive output gap (which is a difference between the observed GDP and its estimate assuming no inflation pressure in the economy) and a further improvement in labour market conditions could result in an acceleration of growth in unit labour costs. Other Council members argued that following the introduction of family benefits, wage pressure could grow, since – given the improving labour market conditions and the persistent mismatches in this market – the bargaining position of lower-paid employees would increase. Certain Council members underlined that the recent depreciation of the zloty should contribute to higher import prices, which could translate into higher consumer price growth.

Referring to the interest rates, the Council decided that they should remain unchanged at the current meeting. The Council members indicated that lower than previously expected price growth in the coming months would be driven mainly by factors beyond the influence of domestic monetary policy. However, in the medium term, CPI growth would be supported by steady increase in domestic economic activity. The Council members confirmed their assessment that – given the available data and forecasts – the current level of interest rates helped to keep the Polish economy on a sustainable growth path and to maintain macroeconomic stability.

The majority of the Council members stressed that continued uncertainty regarding the external and domestic determinants of monetary policy was another argument in favour of stabilization of interest rates at the current meeting. The Council members expressed an opinion that in these conditions, decisions on the interest rates should take into account their potential impact on the financial markets. Moreover, some Council members assessed that when deciding about the level of the interest rates, they should factor in their impact on the financial sector stability. At the same time, in the opinion of certain Council members, there might be a room for further monetary policy easing after risk aversion in the international financial markets abates. In turn, certain Council members judged that in the coming months it might be justified to consider beginning of interest rate increases, since, in their view, inflation pressure could appear due to favourable labour market conditions and the risk of a significant acceleration in consumer demand growth.

The Council members also underlined that a more comprehensive assessment of the outlook for price developments and economic growth in the coming quarters would be possible after the Council gets acquainted with the March projection of inflation and GDP. Certain Council members indicated that the assessment of the impact of changes in fiscal policy on demand and prices in the economy should also be an important factor affecting monetary policy decisions.

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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