Minutes of the Monetary Policy Council decision-making meeting held on 8 February 2017

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

The Council reviewed the developments abroad which affect economic conditions in Poland. It was assessed that global economic growth remained moderate. It was stressed that in the euro area a gradual recovery continued, supported mainly by rising consumer demand and, possibly, an acceleration in investment growth. Attention was drawn to improving sentiment in European industry and an increase in export orders in Germany, which has supported manufacturing activity in Poland. It was assessed that in the United States, despite weaker GDP growth in 2016 Q4, economic conditions were still favourable. They are helped by good consumer sentiment and improving labour market, reflected both in an increase in employment and rising wages. It was underlined that investment growth in the United States had turned positive in 2016 Q4 on the back of recovering extraction activity amid higher oil prices. It was stressed that higher oil prices were also conducive to better economic conditions in its exporters, including Russia. It was emphasised that in China, following a few years of slowdown, GDP growth had picked up somewhat in 2016 Q4. However, it was also noted that in 2016 economic growth in this country had been at its slowest in over twenty years.

It was observed that forecasts for global economic growth had recently been revised upwards and pointed to its acceleration in 2017. Certain Council members stressed that it would probably remain weak in the following years. These Council members pointed to still low investment growth in advanced economies and limited wage growth, resulting in worse private consumption outlook. In this context, risks to global economic growth were cited. Attention was drawn to potential spillovers from the expected further slowdown in China and a likely exacerbation of protectionism in the international trade. In addition, risks for some emerging market economies related to higher USD debt service costs, resulting from monetary policy tightening in the United States, were highlighted.

While discussing price developments abroad, it was emphasised that in recent months inflation had risen significantly in many economies. It was stressed that the increase was related primarily to higher commodity prices as compared with the previous year, referring particularly to oil, but also coal and agricultural commodities. It was pointed out, however, that in the euro area demand pressure was still weak, and as a result core inflation was low, albeit diversified across its member states. The Council members assessed that inflation in the external environment of the Polish economy might level off in the coming quarters on the back of stabilisation in oil prices.

Referring to monetary policy abroad, it was pointed out that the European Central Bank kept interest rates at close to zero, including the deposit rate below zero, and continued its financial asset purchases. It was also noted that the Federal Reserve indicated more interest rate increases in 2017. At the same time, it was highlighted that sentiment in the financial markets had been improving further since the previous Council meeting.

While discussing developments in Poland's real economy, attention was drawn to the preliminary release of GDP data for 2016, which indicated that the annual GDP growth rate in 2016 Q4 had been close to that recorded a quarter earlier. It was stressed that growth had still been driven primarily by increasing consumer demand, supported by a rise in employment as well as child and social benefit payments. It was underlined that accelerating consumer growth was probably accompanied by slower pace of decrease in investment on the back of higher use of EU funds under the new financial framework. In the opinion of certain Council members, investment growth might be still contained by uncertainty in the enterprise sector.

The Council members assessed that economic growth should accelerate in the coming quarters. Some Council members pointed to recent upward revisions of GDP growth. Faster GDP growth in the coming quarters will be supported by a rebound in investment growth resulting from further rise in the use of EU funds under the new financial framework. As some Council members noted, the number of contracts concerning projects co-financed from EU funds signed by local governments is rising, which should also help investment growth. Certain Council members pointed to relatively high capacity to co-finance EU projects using local government funds, resulting from their sound fiscal position. This notwithstanding, according to certain Council members, it cannot be excluded that investment growth will remain low in the coming quarters.

While analysing price developments in Poland, it was highlighted that annual consumer price growth had picked up over recent months. It was observed that, like in many other countries, price growth had resulted mainly from higher global commodity prices as compared with a year before. Attention was drawn to faster growth in energy prices resulting from higher energy commodity prices, and to an increase in prices of, especially unprocessed, food. It was argued, however, that domestic inflationary pressure was still contained by moderate growth in unit labour costs and negative output gap in the domestic economy. In this context, it was underlined that core inflation remained low.

The Council members stressed that short-term forecasts were indicating a substantial rise in inflation in the first few months of 2017. Yet, it was assessed that inflation would be still supported primarily by the effect of higher global commodity prices, yet it was emphasised that this effect would gradually dissipate. As a result, the impact of higher world fuel prices will stabilise or might even decline. While analysing the medium-term inflation outlook, it was underlined that economic growth, despite a slight acceleration in 2017, would not markedly exceed potential GDP growth, and thus would not cause excessive demand pressure. It was further highlighted that, notwithstanding the

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

intensification of wage demands indicated by enterprises, wage growth remained moderate and did not significantly outpace labour productivity growth. Yet, certain Council members assessed that wage growth might pick up substantially in the coming quarters, amid a steady decline in the unemployment rate and a gradual rise in inflation expectations. In their opinion, demand pressure could rise faster than to date.

While discussing NBP's monetary policy, the Council assessed that the risk of persistently running above the target in the medium term was low. Such an assessment was justified by the external and most probably temporary nature of the factors behind the marked increase in price growth in early 2017, amid still weak domestic demand pressure. At the same time, the decline in real interest rates, related to higher inflation, will support the expected acceleration in economic growth. As a result, the Council confirmed its assessment that the stabilisation of nominal interest rates helped to keep the Polish economy on a sustainable growth path and maintain macroeconomic balance.

The Council members judged that in light of information available at the time of the meeting, stabilisation of the NBP interest rates was the most likely scenario also for the following quarters. Yet, certain Council members were of the opinion that should inflation turn out to be higher than current forecast, it might be justified to consider an increase in the NBP interest rates in the subsequent quarters. According to these Council members, the interest rate decisions ought to reflect the impact of real interest rates on savings in Poland. Yet, the majority of the Council members pointed out that, as the risk of the inflation persistently running above the target over the medium term was low, it was difficult to assess at the time of the meeting when it might be justified to consider an increase in the NBP interest rates. It was also stressed that an interest rate rise could adversely affect corporate investment growth.

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%.

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