Minutes of the Monetary Policy Council decision-making meeting held on 7 February 2018

Members of the Monetary Policy Council discussed macroeconomic developments abroad, analysing their impact on the Polish economy. It was observed that a marked recovery continued in the global economy. In particular, it was noted that GDP data confirmed a further recovery in economic activity in the euro area, which was supported by improving labour market conditions, rising business confidence and growth in international trade. Attention was also drawn to the continued favourable economic conditions in the United States and the stabilisation of GDP growth in China.

Referring to price developments in the world economy, it was underlined that, despite the global recovery, inflation abroad remained moderate, which was the result of a weakening of the relationship between price growth and economic activity observed in many countries. It was assessed that this was caused by disinflationary factors related, among others, to the impact of globalisation of the markets for factors of production. As a result, core inflation in many developed economies was still subdued. In particular, it was pointed out that despite the significantly lower unemployment than in previous years, price growth remained low in the euro area, including in Germany.

While analysing developments in commodity prices, it was indicated that oil prices and the prices of other energy commodities had increased recently. It was noted that the rise had mainly resulted from the reductions in output and inventories of oil, amid growing demand for this commodity due to ongoing recovery in global economic growth. It was also pointed out that the depreciation of the US dollar was an additional driver of higher oil prices. Moreover, some Council members underlined that in the wake of the rise in oil prices, the prices of natural gas had also increased. It was indicated that an important factor affecting global commodity prices was the reduction of coal usage in China, alongside an increase in the country's demand for oil and gas.

Regarding monetary policy abroad, it was noted that despite the improvement in 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, although – as announced earlier – at the reduced monthly scale. The ECB had also not modified its communication regarding future decisions. It was pointed out that this could have been caused by the recent appreciation of the euro, which increased uncertainty about the pace of the return of inflation to the ECB target. As a result, 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 2017 GDP data indicated that the good economic conditions continued, accompanied by an increasingly balanced structure of economic growth. It was highlighted that growth

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was still driven primarily by domestic demand, including consumer demand, supported by rising employment and wages, disbursement of benefits and very good consumer confidence. Available data also signal a recovery in investment, although – as emphasised at the meeting – mainly in public investment. However, it was judged that in 2017 Q4 corporate gross fixed capital formation had probably increased as well. Moreover, regarding the structure of GDP growth, it was underlined that in 2017 growth was also driven by strong external demand reflected in a positive contribution of net exports to GDP growth in the second half of 2017.

With reference to the economic growth outlook, it was assessed that an upward revision of the forecast path of GDP growth in Poland could be expected. In the opinion of the Council members, favourable economic conditions will continue in the coming quarters, although GDP growth will probably slow down slightly compared to the second half of 2017.

GDP growth will continue to be supported by rising consumption, yet the statistical effects of the "Family 500 plus" programme will gradually fade. At the same time, a further revival in investment, including private investment, is expected. Certain Council members pointed out that private investment growth was of major significance to the competitiveness of the Polish economy. These members observed that corporate investment growth may, in particular, act as a driver of labour productivity growth in the future, which will mitigate the impact of a potential further acceleration of wages on prices.

In the opinion of the Council members, domestic economic activity in the coming quarters should also be supported by favourable conditions abroad. Yet some Council members observed that in line with the forecasts of international institutions, growth in the largest economies would probably start slowing down as of the beginning of 2019. Certain Council members pointed out that the global growth outlook would, in particular, be affected by the sentiment in the global financial markets, which has recently weakened somewhat. Moreover, some Council members expressed the opinion that even amid a sustained relatively high GDP growth abroad, export growth might be hampered by the stronger exchange rate of the zloty than in the previous months. In turn, in the opinion of other Council members, the zloty exchange rate is still higher – especially against the euro – than the average export profitability exchange rate as declared by enterprises, while high import intensity of export production additionally limits its sensitivity to exchange rate movements.

Referring to the developments in the labour market, it was indicated that despite the recruitment difficulties reported by some firms, employment in the corporate sector continued to rise strongly. It was pointed out that rising employment was accompanied by a further decline in unemployment and a higher wage growth. At the same time, the Council members observed that the wage freeze in the public sector was a factor constraining wage growth. Also the rise in the labour participation ratio and a further inflow of workers from the East had a dampening effect on wage growth.

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The majority of the Council members judged that the labour market was not, so far, generating substantial inflationary pressure, and the rise in unit labour costs in the economy remained moderate. Yet certain Council members indicated the rising number of enterprises with wages growing faster than labour productivity. Furthermore, these Council members argued that in the coming quarters wage pressure might increase, as there was a risk of wage demands arising in the public sector, and – after the lowering of the statutory retirement age – further retirements of a substantial part of eligible employees. Other Council members, however, underlined that the impact of retirements on labour supply had so far been 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 at the end of 2017 and that core inflation net of food and energy prices remained low. Some Council members emphasised that core inflation in 2017 Q4 had been running below the level envisaged in the November NBP projection, despite higher than expected GDP growth. Weaker growth of producer prices was also pointed out. The majority of the Council members were of the opinion that inflationary pressure remained limited.

Referring to the outlook for inflation, it was observed that moderate price growth in the external environment of the Polish economy and the stronger zloty than in the previous year would continue to have a curbing effect on price developments. The majority of the Council members judged that in the light of current information inflation in the next two years would be running close to the inflation target. Certain Council members argued that hitherto inflation might had been dampened by the structural changes increasing price competitiveness in retail trade. These Council members believed, however, that the role of this factor might weaken in the future. At the same time, these Council members pointed to the likely upward revision of the expected inflation path in the coming years.

While discussing NBP monetary policy, the Council decided that currently interest rates should remain unchanged. The Council judged that despite accelerated economic growth inflation in Poland was still running at moderate rates. As a result, the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining 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 Council members judged that the stabilisation of interest rates would continue to help meet the inflation target, while supporting 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

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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 currently expected, it might be justified to consider an increase in the NBP interest rates in the quarters to come. 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.

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.

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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