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

Members of the Monetary Policy Council discussed macroeconomic developments abroad, analysing their impact on the Polish economy. It was observed that a recovery continued in the global economy. It was emphasised that economic growth in the euro area remained stronger than in previous years. Current forecasts expect the favourable economic conditions to continue in the euro area in the coming years, although they will be accompanied by a gradual slowing in GDP growth. Attention was also drawn to the favourable economic conditions in the United States – despite some slowdown in economic activity in this country in 2017 Q4 –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, due to the persistently weak domestic inflationary pressure across many countries and lower global agricultural commodity prices than a year ago.

While analysing developments in commodity prices, attention was drawn to the increased volatility of oil prices and other energy commodities in the recent period. It was pointed out that the restrictions on oil production under the agreement between some of the oil exporting countries continued to affect oil supply. However, the impact of this factor was mitigated by the growing production of shale oil in the United States, which is becoming an increasingly important producer and exporter of this commodity. It was emphasised that high demand for oil persisted, supported by favourable economic conditions in the global economy and increased demand for oil from China related, among others, to its policy of reducing coal consumption. In the opinion of some Council members, in the coming quarters oil prices should however be stable.

Regarding monetary policy abroad, it was underlined that the European Central Bank was keeping interest rates close to zero, including the deposit rate below zero, and was continuing financial asset purchases. At the same time, the ECB stood by its announcement that interest rates would remain at their current levels, even after the end of the asset purchase programme. Certain Council members assessed inflation developments in some of the EU economies, including in Southern European countries, as an uncertainty factor for future ECB decisions. It was pointed out that the Federal Reserve continued to reduce its balance sheet, while signalling further interest rate increases in the future. It was stressed that the situation in the US labour market was a significant factor impacting the decisions of the Fed. Certain Council members assessed that the gradual tightening of monetary conditions by the Fed would lower GDP growth in the United States and lead to a deterioration of the global economic conditions. Other Council members pointed out that the impact of monetary policy tightening in the United States on the economic conditions would be contained by the loosening of fiscal policy in this country.

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While discussing the developments in Poland's real economy, it was underlined that GDP growth rate in 2017 Q4 had remained close to that recorded in the previous quarter, however with the structure of growth changed. It was pointed out that the continued significant growth in consumption had been accompanied by a marked recovery in investment. It was emphasised that the pick-up in investment had taken place mainly in the public sector, although gross fixed capital formation in the corporate sector had probably increased as well. At the same time, the further growth of domestic demand boosted import growth. In turn, annual export growth – despite persistently strong external demand – decreased somewhat, partly due to seasonal factors. It was stressed that although the balance of trade had deteriorated slightly, the current account balance had remained close to zero. It was also underlined that there were no signs of rising imbalances in the domestic economy.

With reference to the economic growth outlook, it was pointed out that according to the March projection, GDP growth in 2018 and 2019 would be higher than expected in November. It was emphasized that economic growth in 2018 Q1 would probably remain close to 5%, with a further recovery in investment signalled by robust growth in construction and assembly output and a rise in production of machinery and equipment in January this year. It was underlined that according to the projection, in the whole of 2018 investment growth would be faster than in the previous year. This would result from a significant increase in public investment and the expected pick-up in corporate investment, amid a favourable outlook for demand. Certain Council members emphasised that private investment was of key importance for increasing productivity and improving the competitiveness of the Polish economy. The Council members underlined that despite faster investment growth in 2018, the results of the projection had indicated a gradual decline in GDP growth in the years 2018-2020. Factors that will drag on GDP growth include the slowdown in economic activity in the environment of the Polish economy and the slightly lower domestic private consumption growth than in 2017. The Council members expressed the opinion that the external conditions of the Polish economy and labour supply developments in Poland were risk factors for the GDP growth forecast. Certain Council members assessed that GDP growth this year could be slightly lower than projected. They expressed the opinion that economic growth rate could be contained by a slowdown in exports and a decline in profitability of foreign sales related to stronger zloty than in 2017.

Regarding the current developments in the labour market, attention was drawn to continued – although slower than in previous quarters – growth in employment in the economy in 2017 Q4. Some Council members underlined that the slowdown in employment growth had been mainly caused by the deepening decline of employment in agriculture, accompanied by still relatively high growth of the number of people employed in the remaining sectors of the economy. These Council members also pointed out that despite the recruitment difficulties reported by companies, employment growth in the enterprise sector had been high in 2017. They emphasised that the ability of

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companies to increase employment and production amid reported problems with labour supply had also been confirmed by the experience of other economies of Central and Eastern Europe. It was pointed out that rising employment in Poland was accompanied by faster wage growth in the economy, although data from the enterprise sector for January might – in the opinion of some Council members – signal a stabilisation of wage growth. Moreover, certain Council members assessed that the increase in wage growth could partly result from the rising percentage of persons employed under permanent contracts. Despite higher wage growth, the majority of the Council members judged that the labour market was not, so far, generating substantial inflationary pressure.

Referring to the prospects for wage growth, attention was drawn to the stabilisation of wage growth forecast in the projection. Certain Council members emphasised that despite the expected stabilisation of wage growth, unit labour cost growth would increase in the years 2018-2019. Some Council members judged that wage growth in the coming quarters could be higher than forecast, particularly in the case of demands for wage rises in the public sector. These Council members expressed the opinion that wage growth could be increased by rising demand for labour due to the expected further recovery in investment. However, other Council members underlined that in the longer term growth in investment would lead to labour productivity growth, which would limit inflationary pressure.

While discussing inflation developments in Poland, it was pointed out that annual consumer price growth had decreased at the beginning of 2018, and that core inflation net of food and energy prices remained low. In the recent period, growth of producer prices also came to a halt. Some Council members underlined that recent data confirmed that the pick-up in wage growth had no impact on price developments. Certain Council members also emphasised that price growth took place amid continued moderate lending growth.

While discussing the outlook for inflation, it was indicated that according to the March projection, inflation in 2018 would be lower than earlier expected and would amount to 2.1%. In the coming years it is expected to grow gradually – to 2.7% in 2019 and 3.0% in 2020. The majority of the Council members judged that the results of the March projection indicated that in the monetary policy transmission horizon inflation would remain close to the target. However, certain Council members emphasised that the expected increase in consumer price growth resulted to a large extent from the gradual rise in core inflation. Certain Council members assessed that inflation could be higher than forecast. According to these Council members, faster price growth could be driven by higher than expected wage growth and – in view of the decreasing ability of companies to absorb rising labour costs without changing the prices of their goods – its stronger transmission to inflation. In turn, other Council members expressed the opinion that the impact of wage growth on price developments could be limited and – as a result – core inflation could be lower than forecast. Moreover, these Council members emphasised that price growth in the coming years would continue to be contained by low inflation in the environment of the Polish economy and significantly weaker forecast growth of energy prices than in previous years.

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While discussing NBP monetary policy, the Council decided that currently interest rates should remain unchanged. The Council judged that current data and the results of the projection indicated a favourable outlook for growth in economic activity in Poland, despite an expected slight slowdown in GDP growth in the years to come. At the same time, in line with the projection, in the monetary policy transmission horizon inflation will remain close to the target. As a result, the Council judged that the current level of interest rates was conducive to keeping the Polish economy on a 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 maintenance of balanced economic growth. Moreover, they 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 incoming data and forecasts suggest a further increase in wage growth and 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 coming quarters.

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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