Minutes of the Monetary Policy Council decision-making meeting held on 11 April 2018

Members of the Monetary Policy Council discussed macroeconomic developments abroad, analysing their impact on the Polish economy. It was observed that global economic conditions remained favourable. It was assessed that in the euro area – despite some deterioration in corporate sentiment – economic activity growth remained relatively robust. It was pointed out that according to current forecasts, GDP growth in 2018 would remain close to its 2017 level, to slow down gradually over the coming years. In the United States – notwithstanding a temporary weakening in economic activity growth in 2018 Q1 – economic conditions are still favourable, and GDP growth in 2018 will probably be higher than in 2017. It was noted that the changes in the international trade policy posed a downside risk to both economic growth in the United States and global economic conditions. However, some Council members expressed the opinion that the scale of the impact of the tightening in the US trade policy on global economic conditions, including those of individual countries, was currently difficult to assess. With reference to economic conditions in emerging market economies, it was underlined that GDP growth in China remained relatively stable.

While discussing price developments in the world economy, it was noted that despite the global recovery, inflation abroad remained moderate due to the persistently weak domestic inflationary pressure in many countries. It was also observed that global agricultural commodity prices were still lower than a year ago. It was emphasised that, notwithstanding favourable economic conditions and the strengthening outlook for economic activity, inflation in the immediate environment of the Polish economy stayed low. Furthermore, attention was drawn to the recent lowering of the inflation forecasts by the European Central Bank and its expectations that price growth in 2018-2019 would remain below the inflation target.

While analysing developments in commodity prices, the recent slight rise in oil prices was pointed out. It was observed that oil prices were driven by both the current and the expected relationship between supply and demand for this commodity. It was pointed out that the key determinants of global oil supply included restrictions on oil production under the agreement between some of the oil exporting countries and growing production of shale oil in the United States. It was indicated that the production of shale oil in the medium term would be affected, on the one hand, by technological changes reducing the cost of its production, and on the other hand, by the decreasing investment propensity of American oil producers. 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.

Regarding monetary policy abroad, it was underlined that the ECB was keeping interest rates close to zero, including the deposit rate below zero, and was continuing

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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 purchases programme. It was pointed out that – although at its recent meeting the ECB discontinued the direct signalling of a potential increase in the size of asset purchases – it did not rule out an extension of the programme. Certain Council members underlined that after keeping interest rates at low levels for a long period, the ECB may start to raise them next year. It was observed that the Federal Reserve had increased interest rates in March and continued to gradually reduce its balance sheet. Certain Council members assessed that the tightening of monetary conditions by the Fed could lower GDP growth in the United States and lead to a deterioration in global economic conditions. Other Council members pointed out that the monetary tightening in the United States was accompanied by a marked easing of fiscal policy in this country.

While discussing the developments in Poland's real economy, it was pointed out that GDP growth in 2018 Q1 had probably remained close to that recorded in the previous quarter. It was observed that output growth was supported by two main factors: consumption demand and investment. The sustained consumption growth is underpinned by rising employment and wages, disbursement of benefits and very strong consumer sentiment. At the same time, the increasing absorption of EU funds, a favourable demand outlook and a high capacity utilization are conducive to a recovery in investment. It was pointed out that while public investment, especially local government investment, continued to be the key driver of investment growth, in 2017 Q4 this was accompanied by a rise in gross fixed capital formation in the corporate sector.

In some Council members' opinion, robust rise in the construction and assembly output in recent months was indicative of a further relatively fast growth of gross fixed capital formation in the economy in 2018 Q1. It was observed that the recovery in investment coupled with the continued rise in consumption, had contributed to accelerated import growth. At the same time, export growth – despite a recent weakening – remains relatively stable. Some Council members underlined that incoming information suggest that economic growth this year might be higher than previously expected. Certain Council members assessed that economic activity in the coming years may be exposed to risk related to the decrease in corporate profit margins, driven by rising labour costs amid the limited – given strong competition in many industries – capacity of firms to raise prices.

When analysing the current developments in the labour market, further employment growth and declining unemployment rate were indicated. Some Council members underlined that while employment growth was somewhat slower than at the end of 2017, the number of persons working in the corporate sector remained relatively high in the first months of 2018. Yet other Council members argued that although the number of persons working in the entire corporate sector was still rising markedly, in some industries the possibility of increasing employment were limited. It was pointed out that while wage growth was higher than in previous years, it had not accelerated further

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at the beginning of the year. Some Council members emphasised that the January and February rise in wages in the corporate sector was weaker than in 2017 Q4. However, other Council members indicated that wage growth continued to exceed labour productivity growth, which was conducive to unit labour cost growth. Furthermore, certain Council members believed that following a temporary levelling, wage growth might pick up again in the coming quarters. In the opinion of those Council members, factors with a potential upward impact on wage growth included the possibility of pay rise demands in the government sector and the increasing demand for labour due to the expected further investment recovery. Other Council members, in turn, considered strong wage pressure in the government sector unlikely, since the employees in this sector attached more weight to job stability than pay level. Some Council members additionally pointed out that in the longer term investment growth would probably lead to higher labour productivity, thus weakening inflationary pressure.

While discussing inflation developments in Poland, it was observed that annual consumer price growth had decreased lately and had been weaker than expected. Some Council members underlined that despite persisting good economic conditions and wage growth higher than in previous years, inflation excluding food and energy prices had declined and service price growth had slowed down. They also pointed out the near-zero growth in producer prices, and emphasised that slower price growth was accompanied by slightly lower inflation expectations, both among households and enterprises.

While discussing the outlook for inflation, it was indicated that according to current forecasts, inflation in 2018 might be lower than in the March NBP projection. Yet certain Council members pointed out that the expected increase in consumer price growth was still to result largely from a gradual rise in core inflation. Certain Council members assessed that inflation in 2018 could be higher than forecast due to acceleration in wage growth expected by them. In turn, other Council members expressed the opinion that the impact of wage growth on price developments could remain limited.

It was emphasised that the current rate and structure of economic growth did not lead to rising imbalances in the economy. It was pointed out that the lack of strong inflationary pressure was accompanied by the sustained trade surplus and current account balance running close to zero. It was also indicated that the annual total lending growth was still lower than the nominal GDP growth. A very good performance of the general government sector in 2017, including its decreasing deficit and debt to GDP ratio, was emphasised as well.

While discussing NBP monetary policy, the Council decided that currently interest rates should remain unchanged. The Council judged that current information 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 forecasts, 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

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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, the probability of interest rates remaining stable in the coming quarters had increased, and the period in which they would remain at the current level might be longer than previously expected. These Council members judged that the stabilization 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.

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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