Minutes of the Monetary Policy Council decision-making meeting held on 5 September 2018

During the meeting, the Council noted that global economic conditions remain favourable. It was pointed out that activity in the euro area continued to be strong, despite slightly slower GDP growth than in 2017. It was emphasised that economic activity growth in Germany had picked up in 2018 Q2, supported mainly by robust consumer demand. The outlook for economic conditions in this economy was assessed as good, despite uncertainty associated with the decline in industrial orders in the previous month. The consistently favourable conditions for domestic demand in Germany are accompanied by uncertainty about the country's export growth in the following quarters. However, some Council members judged that in view of a likely agreement between the United States and the European Union, the risk of tariffs being imposed on car imports from Europe to the United States had decreased. At the same time, it was noted that this year's GDP growth in the United States was higher than in 2017. GDP growth in this economy had picked up markedly in 2018 Q2, which was mainly driven by a recovery in consumption and greater export momentum. It was pointed out that the risk for global economic conditions related to the United States' trade policy had diminished somewhat in the recent period, boosting the sentiment in the international financial markets. However, it was indicated that against the background of the bad economic situation in Argentina and Turkey, investors' propensity to invest in some emerging market economies had declined. This had an adverse effect on the prices of those countries' assets and contributed to a depreciation of their currencies.

When analysing changes in energy commodity prices, it was noted that oil prices persisted at levels markedly higher than the year before, having fluctuated significantly in the recent period. It was pointed out that the increased volatility of oil prices was caused by political decisions made by some of the countries exporting this commodity, as well as one-off factors. It was indicated that in the longer term the level of oil prices would be determined by global economic conditions, technological change and the scale of investment geared to raising the output of this commodity.

While discussing inflation developments in the global economy, it was observed that despite good economic conditions, inflation abroad remained moderate. It was pointed out that the increase in oil prices in recent months had contributed to higher price indices in many countries. Certain Council members were of the opinion that for this reason, inflation in the following quarters might also be higher than previously forecast. At the same time, it was indicated that higher oil prices would have a dampening effect on GDP growth in the oil-importing countries.

Referring to monetary policy in the external environment of the Polish economy, it was noted that the ECB was keeping interest rates close to zero, including the deposit

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

rate below zero. At the same time, the ECB continued to purchase financial assets, although it reaffirmed its guidance to reduce the scale of purchases from October 2018 and to terminate the programme by year-end. Some Council members judged that, given the expected gradual economic slowdown and consistently moderate inflation in the euro area, interest rates in this region might remain low for an extended period of time. It was observed that in the United States, the Federal Reserve continued to gradually tighten monetary policy. Certain Council members assessed, however, that the pace of the tightening might be slower than previously expected. It was pointed out that while the monetary policy tightening in the United States could incline investors to withdraw capital from emerging market economies, the risk of a strong capital outflow from those economies which enjoyed a favourable economic conditions and lack of external imbalances was limited.

Discussing the developments in Poland's real economy, it was emphasised that the 2018 Q2 GDP data pointed to continued robust economic growth. It was indicated that economic growth was supported by rising consumption, benefiting from the increasing employment and wages, disbursement of benefits and very strong consumer sentiment. It was observed that this was accompanied by a rise in investment, both in the public sector and in the large company sector, although gross capital formation growth in 2018 Q2 had been weaker than in the previous quarter. It was assessed that the sources of the slowdown in investment growth in the economy were difficult to identify, given the sharp rise in local government investment and the acceleration in investment activity of large enterprises. Certain Council members expressed the opinion that measuring corporate investment outlays might be hindered by changes in sources of their financing and the evolving character of the investments implemented. At the same time, it was underlined that a marked rise in export growth was recorded in 2018 Q2, making a contribution of net exports to GDP growth positive.

With reference to the outlook for economic growth, it was pointed out that according to available forecasts, GDP growth in 2018 would remain relatively high and would gradually slow down in the following years. Some Council members assessed that the pace of economic growth in the quarters to come would probably be slightly weaker than in 2018 Q2. Certain of these Council members voiced the opinion that GDP growth in the coming months would be hampered by rising energy prices and supply constraints in the labour market. Other Council members, in turn, argued that GDP growth in the following quarters should be stable, and in the longer term might be higher than expected. It was assessed that the main source of risk for GDP growth forecasts was developments in the external environment of the Polish economy.

While analysing current developments in the labour market, it was pointed out that employment growth continued at stable rates, while unemployment levels remained low in 2018 Q2. It was underlined that these developments were accompanied by higher wage growth than in the previous year. Yet some Council members observed that the data from both the national economy and the corporate sector confirmed that wage

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

growth had stabilised, with no signs of further acceleration. They judged that wage growth would probably also remain at its current level in the following quarters. This was indicated by a decline in the share of firms planning pay rises and those experiencing mounting wage pressure. These Council members expressed the opinion that wage growth was being contained by the good financial situation of households and the continued inflow of foreign workers. However, other Council members pointed out that the inflow of foreign workers was diminishing, which – along with the mounting pay demands in the government sector – might contribute to a pickup in wage growth in the subsequent quarters. These members judged that any possible wage rises in the public sector and the increase in the minimum wage amid stable inflation, might put upward pressure on wage growth in the private sector.

Discussing inflation developments in Poland, it was observed that the annual consumer price growth remained moderate and stayed at 2.0% in August. It was pointed out that the main factor contributing to higher prices than in the previous year was the rise in fuel prices, i.e. a factor being to a large extent beyond the direct influence of monetary policy. At the same time, inflation net of food and energy prices, while having risen somewhat in the past month, remained low, and inflation expectations of households and enterprises were stable.

While discussing the outlook for price growth, it was indicated that in line with available forecasts, inflation in a one-year horizon would rise somewhat, but stay close to 2.5%. Most Council members judged that in the monetary policy transmission horizon, inflation would also remain close to the target. Certain Council members emphasised that inflation could be boosted by stronger growth of energy prices due to the significant reaction – resulting from the price policy of Polish producers – of fuel prices to increase in global oil prices, as well as the rise in costs related to the need to adapt the energy infrastructure to the EU requirements. These Council members also judged that in the following months food price growth might rise due to the drought during the summer months. Certain Council members pointed out that the enacted legislative changes and the indexation of certain benefits might also contribute to price growth in the next year. However, other Council members emphasised that the likelihood of stronger growth in inflation was limited by the good financial results of enterprises which, along with strong competition in the market, decreased the propensity of firms to raise prices. They also indicated that core inflation would rise only gradually in the following months.

The Council members also stressed that no clear signs of imbalances were currently observed in the economy. It was noted that the current account balance remained close to zero, and net exports had made a positive contribution to GDP growth in 2018 Q2. It was also emphasised that credit to the non-financial sector was growing at a moderate pace, while the real lending rates remained at solidly positive levels. Some Council members assessed that the accelerated growth in lending to households, including consumer loans, resulted from households' improving financial situation, translating into better credit standing. These Council members also pointed out that the growth in

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housing loans was only gradual. However, certain Council members assessed that the persisting level of the reference rate – negative in real terms – might increase the risk of imbalances emerging in the economy. They pointed to the relatively fast, in their opinion, rise in consumer loans and the resulting high household debt in comparison with European countries. Other Council members considered that amid strong demand for household credit, which is characterised by higher margins, banks might be less prone to finance corporate investment activity.

While discussing NBP monetary policy, the Council decided that interest rates should remain unchanged. The Council judged that current information indicated a favourable outlook for economic activity growth in Poland, despite the expected slowdown in GDP growth in the subsequent years. At the same time, in the monetary policy transmission horizon inflation would 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, the stabilisation of interest rates in the quarters to come would continue to help meet the inflation target, while supporting the maintenance of balanced economic growth, including a further recovery in investment. Moreover, these Council members pointed out that the need to take into account monetary conditions in the immediate environment of the Polish economy, as well as the heightened uncertainty about the outlook for the global economy, 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 also expressed that in the hypothetical event of a slump in economic activity 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 or an introduction of unconventional monetary policy instruments.

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