

Minutes of the Monetary Policy Council decision-making meeting held on 17 May 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. Further signs of global recovery, particularly in industry and international trade, were observed. It was noted that in the euro area economic recovery continued, albeit still at a moderate pace, and that investment growth was estimated to decelerate in 2017 Q1. It was stressed that sentiment indicators in the euro area had improved substantially in recent months, which, however, had not yet been fully reflected in data on economic activity. The decline in the 2017 Q1 growth rate in the United States was also cited, with an emphasis on its temporary nature. The Council members also pointed to an unexpected pick-up in the GDP growth rate in China, yet stressed that the latest data did not indicate a sustained acceleration of growth in this economy.

With reference to price developments abroad, it was observed that in many countries the annual inflation rates were markedly higher than in 2016. Yet, it was emphasised that a bulk of the increase had taken place in early 2017, while more recently inflation had stabilised. It was assessed, however, that this had resulted mainly from fading effects of the earlier rise in energy commodity prices, which had been propping up the annual price growth rates over preceding months. A decrease in energy commodity prices since the previous Council meeting was cited in this context. During discussion on inflation, it was stressed that in many economies, including the euro area, wage growth was still moderate, and inflation expectations were low.

Turning to monetary policy abroad, it was pointed out that the European Central Bank was keeping the interest rates close to zero, including the deposit rate below zero, and was continuing its asset purchase programme. It was also observed that the Federal Reserve was indicating further monetary policy tightening. Despite this, it was emphasised that sentiment in the international financial markets had been improving, which had translated into an appreciation of many emerging market currencies in the period preceding the Council meeting.

While discussing developments in Poland's real economy, the Council members pointed to flash GDP estimate which had indicated a considerable rise in the economic growth rate in 2017 Q1. It was assessed that economic growth was still driven primarily by increasing consumer demand, supported by rising employment and wages, good consumer sentiment and disbursement of child and social benefits. In the opinion of the Council members, improving conditions in industry and construction, confirmed by monthly data, may indicate that the 2017 Q1 economic growth had also benefited from a gradual recovery of investment demand. Some Council members noted that the pick-up

in the annual GDP growth rate could result in part from a statistical base effect. In this context, they pointed to a downward revision to GDP growth data for 2016.

In the Council's opinion, in the coming quarters GDP growth should be supported by further investment recovery amid rising inflow of EU funds, along with stable consumer growth. At the same time, exports should continue to rise rapidly, propped up by economic recovery abroad. As a result, GDP growth in 2017 should be markedly higher than in 2016. The Council members stressed that a more comprehensive assessment of Poland's economic outlook for the coming quarters would be possible after becoming acquainted with NBP's July projection of GDP.

When analysing inflation developments in Poland, it was stressed that annual growth in consumer prices had stabilised at a moderate level following a significant rise at the beginning of 2017. As certain Council members underlined, inflation had stabilised somewhat earlier than expected. It was judged that this had resulted from fading effects of the previous increases in global commodity prices. At the same time, it was underlined that core inflation, though gradually increasing, remained low.

Certain Council members pointed to a rise in prices for services, which had been contributing to the increase in core inflation. Moreover, these Council members indicated that in 2017 Q1 labour costs were playing an increasingly important role in price developments. They also drew attention to a significant rise in the annual producer price growth rate over recent months.

However, other Council members emphasised that, despite higher wage growth in 2017 Q1, growth in unit labour costs was still moderate, amid rising labour productivity. It was also stressed that the increase in the annual producer price growth rate in February and March 2017 resulted from a low reference base.

The majority of the Council members assessed that in the coming quarters inflation would remain moderate. They judged that this would be supported by only a gradual rise in domestic inflationary pressure related to improving economic conditions in Poland, together with a fall in the annual growth rate of energy and food prices resulting from fading effects of the earlier increase in commodity prices. However, certain Council members assessed that inflation in the coming quarters could turn out to be higher than currently forecast. In their opinion, the risk that the wage pressure might intensify had grown over recent months. According to these Council members, upside risks might stem from lower immigration to Poland following the EU visa liberalisation with Ukraine and a possible decrease in the labour force participation rate after the introduction of lower retirement age. Moreover, certain Council members indicated that adverse weather conditions in the period preceding the Council meeting could translate into an increase in the food price growth rate in Poland.

While discussing NBP monetary policy, the Council decided that the interest rates should remain unchanged. The Council assessed that, despite improving economic conditions and good labour market conditions, inflationary pressure was limited and there were no imbalances building up in the economy. At the same time, the available

forecasts indicate that inflation will remain moderate in the coming quarters. Therefore, in the Council's assessment, the risk of inflation running persistently above the target in the medium term is limited.

The majority of the Council members assessed that stabilisation of the NBP interest rates was likely in the following quarters, since – given the available information – it had been helping to keep the Polish economy on a sustainable growth path and maintain macroeconomic balance.

In the opinion of certain Council members, should data and forecasts incoming in the following quarters suggest stronger inflationary pressure than expected at the time of the meeting, it might be justified to consider an increase in the NBP interest rates.

The Council members concluded that a more comprehensive assessment of the monetary policy outlook would be possible after becoming acquainted with the incoming NBP's inflation and GDP projections.

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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