Minutes of the Monetary Policy Council decision-making meeting held on 16 May 2018

During the meeting, the Council discussed the impact of macroeconomic developments abroad on monetary policy in Poland. In the discussion it was pointed out that global economic conditions remained favourable, even though GDP growth in major developed economies weakened somewhat at the beginning of the year. Yet, in the assessment of the Council, this most probably was due to temporary factors.

In particular, it was emphasised that GDP growth in 2018 Q1 had slowed down in the euro area. It was indicated that economic conditions had deteriorated in Germany, Poland's key trading partner, which had been partly attributable to a number of one-off factors, such as strikes related to pay negotiations or unfavourable weather conditions. In April, however, business confidence indicators in the German economy stabilised. The Council members noted that the 2018 GDP growth in the euro area as a whole should be similar to that of the previous year, while in the coming years it would gradually weaken. Likewise in the United States economic conditions remain strong, notwithstanding the fact that GDP growth in this economy also lost some momentum in 2018 Q1. In the opinion of the Council members, this was probably caused by temporary factors – like in the euro area. With reference to economic conditions in emerging economies, it was emphasised that GDP growth in China had been running at a relatively stable rate for several quarters. It was noted that uncertainty related to the United States' trade policy and the impact of geopolitical tensions were the primary risk factors to global economic growth.

While analysing developments in commodity prices, a further increase in oil prices was noted. It was assessed that prices of this commodity were affected by geopolitical tensions, the current relationship between supply and demand for oil, as well as changes in the US dollar exchange rate. The expected extension of the agreement on the cap on oil production by some oil-exporting countries (so called OPEC+) was pointed out as an important factor limiting the supply of oil. In turn, a further rise in shale oil production in the United States should increase the supply of this commodity. At the same time, it was noted that high demand for oil persisted, supported by favourable global economic conditions. Certain Council members also highlighted the fact that the increasing emphasis on the protection of the natural environment in many countries added to a rise in the costs of production and transportation of oil.

When discussing inflation developments in the global economy, it was observed that despite favourable global economic conditions and the rise in oil prices, inflation abroad remained moderate. It was pointed out that this reflected the continuously weak domestic inflationary pressure in many countries, as well as still lower prices of agricultural commodities than the year before. In particular, attention was drawn to a

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renewed decline in the euro area inflation, which despite the favourable economic conditions in Europe and the highly accommodative monetary policy of the European Central Bank, still remained well below the level compatible with the ECB's definition of price stability.

In the discussion it was emphasised that the EBC was keeping interest rates close to zero, including the deposit rate below zero, and continued to purchase financial assets. At the same time, the ECB also reaffirmed its guidance to maintain interest rates at the present level even after the end of the asset purchases. The US Federal Reserve, in turn, continues to gradually reduce its balance sheet, hinting at further interest rate increases in the future. At this point, certain Council members noted that some members of the Federal Open Market Committee were concerned that the slowdown in the US economy in response to the tightening of monetary policy could be too pronounced. Other Council members emphasised that the tightening of monetary policy in the United States was accompanied by a marked easing of fiscal policy in this country.

Discussing the developments in Poland’s real economy, it was observed that in line with GUS flash estimate, GDP growth amounted to 5.1% in 2018 Q1. It was pointed out that currently economic growth was supported both by increasing consumption and a recovery in investment. The continued consumption growth is supported by rising employment and wages, disbursement of benefits and very strong consumer sentiment. In turn, the increasing absorption of EU funds, favourable demand outlook as well as high capacity utilisation were conducive to the recovery in investment. At the same time, the Council members stressed that the growth rate of gross fixed capital formation was increasing steadily from quarter to quarter and that data on investment in larger enterprises showed that in 2017 expenditure on buildings and structures and on machinery, technical equipment and tools, as well as on means of transport, was higher compared to the previous year. However, certain Council members noted that the investment rate was still lower than before the global financial crisis. Some Council members judged that the stabilisation of interest rates at the current level was an important factor conducing to further growth in gross fixed capital formation in the corporate sector. Other Council members indicated that currently the cost of money is not the key factor affecting investment growth.

When assessing the outlook for GDP growth, it was emphasised that economic conditions in the Polish economy remain favourable, despite the slightly weaker data on industrial and construction-assembly output in March. At the same time, it was underlined that a slight weakening in GDP growth should be expected in Poland in the coming years.

While analysing the current developments in the labour market, further rise in employment and historically low level of unemployment rate were pointed out. Some Council members stressed that while wage growth was higher than in previous years, it slowed down in 2018 Q1 compared to the preceding quarter. However, other Council members emphasised that wage growth continued to exceed labour productivity

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growth, which was conducive to an increase in unit labour costs. Moreover, certain Council members judged that wage growth, having weakened temporarily, might pick up again in the subsequent quarters. In their opinion, this could be driven by factors such as the possible pay rise demands in the government sector and the growing shortage of qualified labour. Other Council members stressed that unit labour cost growth was moderate. These Council members were also of the opinion that the likelihood of a strong wage pressure in the government sector was small, and that the planned legal changes facilitating hiring Ukrainian citizens in Poland should support a further inflow of workers from Eastern Europe.

Discussing inflation developments in Poland, it was observed that the annual consumer price growth had increased to 1.6% in April, in line with expectations. Some Council members underlined that despite favourable economic conditions and faster wage growth than in previous years, the moderate consumer price inflation was still accompanied by low inflation net of food and energy prices. These Council members also highlighted the persistently very low producer price inflation, despite the rise in global oil prices and some weakening of the zloty exchange rate over the recent past. At the same time, it was indicated that currently petrol prices were rising faster than oil prices, which – to some extent – could result from the structure of the Polish fuel market. In turn, certain Council members judged that slower price growth was supported by the ongoing shift in the structure of retail sales, involving an increasing role of discount and online stores, which enhanced price competition in this market.

While discussing the outlook for price growth, it was indicated that inflation in the coming months might pick up, yet it's yearly average would probably stand below the level envisaged in the March NBP projection. However, certain Council members pointed out that the expected pick-up in consumer price growth was to result largely from a gradual rise in core inflation, which – in their opinion – might mean a more persistent growth in inflationary pressure. These Council members also observed that the current wage growth added to a decline in profit margins, which might lead to price rises in the future. Other Council members argued that core inflation was still running below expectations, and growth in service prices, its important component, had slowed down recently.

With reference to risks to the future inflation path, certain Council members observed that – besides the possible, in their opinion, rise in wage pressure – these risks included the speed and scale of pass-through of the increase in oil prices to the prices of energy carriers, as well as the impact of introducing the emission charge on fuel prices. These Council members judged that should the resulting consumer price growth prove significant, this might lead to higher inflation expectations. Other Council members pointed out that the pick-up in inflation due to oil price growth might prove temporary, so it should have neither significant nor lasting impact on inflation expectations. At the same time, some Council members emphasised that the latest central inflation forecast in Poland prepared by professional forecasters showed no risk of inflation exceeding the target in the coming years. The recent slight decline in inflation expectations of households and enterprises was also highlighted.

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 economic activity growth in Poland, despite the expected slight slowdown in GDP growth in the subsequent years. At the same time, in line with available 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 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 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 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 also 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% and the rediscount rate at 1.75%.

Publication date: 1 June 2018

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