Minutes of the Monetary Policy Council decision-making meeting held on 6 June 2018

During the meeting, the Council noted that global economic conditions remained good. The weakening in the GDP growth in the euro area in 2018 Q1 was in part due to one-off factors, and the outlook for growth in this economy continues to be favourable. In line with current forecasts, in 2018 GDP growth in this region will remain close to its level in the previous year and will be gradually slowing down in the following years. It was indicated that risks around this scenario included changes in the trade policy between the euro area and the United States as well as the political situation in Italy. Yet some Council members judged that the current situation in Italy did not pose a significant risk to economic conditions in the euro area, although it might contribute to heightened volatility in the financial markets. At the same time, it was pointed out that the weaker than expected slowing in economic activity in the United States in 2018 Q1 had also been of a temporary nature. According to available forecasts, GDP growth in 2018 Q2 would probably pick up considerably, and in the entire 2018 it would be higher than in the previous year. It was noted that besides the changes in international trade policy, a potential sharp correction in the US equity market might present a threat to both economic growth in the United States and global economic conditions. It was indicated that developments in oil prices were another source of uncertainty for global growth. With regard to economic conditions in emerging economies, it was emphasised that GDP growth in China remained stable.

When analysing changes in commodity prices, it was noted that while oil prices had decreased in the recent period, they were still markedly higher than in the previous year. It was assessed that the decline in oil prices was in part caused by a possible increase in the production of this commodity by some of its exporters (the so-called OPEC+), as signalled by Saudi Arabia and Russia. In turn, factors containing the decline in oil prices included the imposition of sanctions on oil imports from Iran announced by the United States, as well as the unfavourable economic and political situation in Venezuela. Certain Council members judged that, against this background, oil prices would probably remain relatively high in the coming months, albeit slightly below their current level.

While discussing inflation developments in the global economy, it was observed that despite good global economic conditions and higher oil prices than in the previous year, inflation abroad remained moderate. It was pointed out that this was driven by the persistently weak domestic inflationary pressures in many countries.

Referring to monetary policy in the external environment of the Polish economy, it was noted 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 reaffirms its guidance to maintain interest rates at the present levels, even after the end of the asset purchases. The US Federal Reserve, in turn, continues to gradually reduce its

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balance sheet, hinting at further interest rate increases in the future. Certain Council members judged that the tightening of monetary conditions by the Fed might hamper GDP growth in the United States as well as having an adverse effect on global economic conditions.

Discussing the developments in Poland's real economy, it was pointed out that GDP growth in 2018 Q1 was probably close to that in the second half of 2017. It was pointed out that economic growth was supported by rising consumption, benefiting from the ongoing improvement in households' financial situation. It was emphasised that households' real disposable income had risen considerably in 2017, while income inequalities had narrowed down. As a result, consumers have better assessed their living standards, and their confidence remains very high. At the same time, the increasing absorption of EU funds, favourable demand outlook and high capacity utilisation support the recovery in investment. It was observed that public investment remained the main component of growth in gross fixed capital formation, while corporate investment rose at a moderate pace. Certain Council members pointed out that growth in public investment may be conducive to further recovery in corporate investment activity. These members also indicated that it could not be ruled out that as the structure of corporate investment had changed– among others, due to a rise in expenditure on intangible assets – the rate of investment conducive to robust and sustainable economic growth in the longer term might be lower at present than in the past. The Council members underlined a considerable contribution from change in inventories to GDP growth in 2018 Q1. It was noted that although changes in this category seemed ambiguous, yet they probably resulted from companies' activities aimed at stock replenishment in anticipation of high demand for their products in the quarters to come. However, it cannot be ruled out that the increase in stocks was due to the accumulation of unsold goods as a result of a weakening of foreign sales in 2018 Q1. At the same time, it was underlined that export sales growth in 2018 Q1 was significantly slower than in the previous quarters, most likely due to the slowdown in economic activity in the euro area.

While assessing the outlook for economic growth in Poland, it was emphasised that according to current forecasts, GDP growth would remain relatively high in 2018. Yet, it could decline slightly in the following years. Certain Council members judged that the short term economic outlook was currently better than expected in NBP's March projection. It was underlined that the main source of risk for GDP growth in the future were developments in the external environment of the Polish economy.

While analysing the current developments in the labour market, a further rise in employment and a fall in the unemployment rate in 2018 Q1 were highlighted. It was emphasised that in such conditions part of enterprises reported recruitment difficulties. However, some Council members pointed out that in the recent period the share of companies with job vacancies had stabilised, and the number of enterprises considering staff shortages as a barrier to their development had declined. In the opinion of these Council members, this could be due to companies adjusting to more difficult conditions

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in the labour market, among others, by employing foreigners. It was underlined that this was accompanied by higher wage growth than in the previous year. Yet some Council members emphasised that according to data from the national economy, wage growth in 2018 Q1 decreased somewhat. Certain Council members judged that wage growth would most likely pick up again in the remaining part of the year as a result of – besides the limited supply of skilled labour – the possible pay rise demands in the public sector. In turn, other Council members pointed out that average wages in this sector between 2010-2017 had grown on average at a rate similar to that in the corporate sector, and currently wages in both sectors were comparable. It was indicated that wage growth in the public sector might result from, among others, pay rises of the lowest earners and people employed on civil law contracts. Some Council members were of the opinion that wage growth in the following quarters should not accelerate significantly and emphasised that the available forecasts indicated it would stabilise at around 7%.

Discussing inflation developments in Poland, it was observed that the annual consumer price growth had increased to 1.7% in May, which was lower than expected. Some Council members underlined that inflation remained moderate despite a significant rise in fuel prices. In the assessment of these Council members, this results from the still weak domestic inflationary pressures, as indicated by the persistence of low inflation net of food and energy prices and the slowdown in the prices of services.

While discussing the outlook for price growth, it was indicated that due to the earlier increase in oil prices in the global markets and a certain depreciation of the zloty in the recent period, inflation might rise in the following months. Certain Council members judged that the transmission of higher oil prices – through increasing transport costs – to the prices of consumer goods might mean that in several months inflation could already be higher than under the current forecasts. These members also expressed the opinion that the current wage growth, which was lowering the profitability of enterprises, could lead to more marked price growth in the future. However, other Council members emphasised that according to current forecasts, core inflation would rise slower than expected earlier. These Council members also underlined that sales margins of enterprises had declined only slightly, and their possible recovery would be – according to the declarations of companies – achieved by price rises only to a limited degree.

While analysing the situation in the credit market, it was underlined that loans to the non-financial sector were growing at a moderate rate. According to certain Council members, this indicated a lack of excessive demand for external financing on the part of economic entities. However, other Council members judged that credit growth might be limited by the declining propensity of banks to increase lending to the private sector.

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

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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%, the rediscount rate at 1.75%.

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