Minutes of the Monetary Policy Council decision-making meeting held on 5 July 2017

Members of the Monetary Policy Council discussed macroeconomic developments abroad analysing their impact on economic conditions in Poland. Further signs of strengthening in global activity were indicated, including the ongoing recovery in the euro area confirmed by an improvement in many economic indicators. It was pointed out that – besides a rise in consumption – euro area GDP growth was currently supported also by a recovery in investment. The Council members also considered the diminishing growth differentials among euro area countries as a sign of consolidation of the recovery in the euro area. Yet, certain Council members underlined that, despite the improved business conditions, growth in the euro area remained relatively weak. While analysing economic developments in other economies, it was judged that GDP growth in the United States probably increased in 2017 Q2. It was noted, however, that recent data on activity in the US economy were slightly weaker than expected. Attention was also drawn to the relatively high equity prices in the US market and their historically low volatility. Moreover, during the discussion it was pointed out that current data in China indicated a gradual slowdown in country's economic growth.

While discussing price developments abroad, it was emphasised that despite the ongoing global recovery, inflation had remained moderate and had even slightly declined in some countries. In this context, attention was drawn to the stabilisation of global energy commodity prices in the recent period. In the opinion of the Council members, owing to the increased use of shale oil in the United States and the high oil stocks, the prices of oil have currently become less sensitive to changes in global economic conditions and to OPEC decisions to restrict oil production.

During the discussion on monetary policy abroad, it was pointed out that, despite the strengthening of the economic recovery in the euro area, the European Central Bank had revised downward its medium-term inflation forecasts for the euro area economy. Currently it is expected that also in the coming years inflation in the euro area will remain below the ECB's inflation target. Taking this into account, the European Central Bank keeps interest rates close to zero, including the deposit rate below zero, and continues its asset purchase programme. In reference to the United States, it was pointed out that the Federal Reserve was continuing monetary policy tightening by raising interest rates and signalling the possibility of decreasing its reinvestment of the principal payments from securities in the coming quarters.

While discussing developments in Poland's real economy, the Council members stressed that monthly data on economic activity signalled a continuation of stable GDP growth in 2017 Q2. It was judged that a further rise in retail sales amid very good consumer sentiment indicated still high private consumption growth. Moreover, attention was drawn to the increased growth in both industrial output and construction

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

and assembly output in May after their marked weakening in April. Similarly, leading economic indicators suggest a continuation of favourable trends in the corporate sector. It was assessed that – along with the expected growth in the use of EU funds – this should support gross fixed capital formation, while also stressing that under the July projection investment growth in 2017 Q2 was probably only slightly positive. In reference to the July projection, it was underlined that economic growth over the coming quarters would remain close to its current level, and would then run close to potential output growth. The Council members indicated that, although rising consumer demand remained the main driver of growth, in the coming quarters its role would diminish due to the gradual fading of the statistical effects of the "Family 500 plus" programme introduced in 2016 on consumption growth. At the same time, a further recovery in investment is forecast beginning from the second half of 2017. Certain Council members pointed to the still low investment rate in the Polish economy compared to many other European countries, which could have a negative effect on potential output growth.

When analysing inflation developments in Poland, it was emphasised that annual growth of consumer prices remained moderate and even decreased in June. At the same time, it was pointed out that core inflation, although gradually increasing, remained low. The Council members judged that these developments in inflation followed from fading effects of the past increase in global commodity prices, with only a gradual rise in domestic inflationary pressure stemming from improving domestic economic conditions.

While discussing the outlook for price developments in Poland, it was emphasised that – under the July projection – consumer price inflation should remain moderate and approach the target towards the end of the projection horizon. This will result from the gradual increase in core inflation related to the continuation of favourable economic conditions, amid lower growth in import prices. The majority of the Council members judged the risk to price stability in the medium term to be limited. Yet, in the opinion of certain Council members, the impact of factors increasing inflation over the coming years could prove stronger than had been forecast in the July projection, while the impact of factors holding back inflation could be weaker than anticipated in the projection.

With reference to the situation in the labour market, attention was drawn to a further increase in employment and wages in the corporate sector. In the opinion of the Council members, in the coming quarters wage growth could continue to increase due to the likely further rise in employment amid the emerging labour supply-side constraints. At the same time, the expected continuation of increases in labour productivity growth was highlighted, which would limit the unit labour cost growth in the coming years. In this context, certain Council members pointed to the risk of lower labour immigration of Ukrainian citizens to Poland, and also a possible decrease in the labour force participation rate following the introduction of the lower retirement age.

The Council members also discussed the consequences of interest rates remaining unchanged for a prolonged time amid expectations of a gradual growth in inflation in the coming years. Certain Council members pointed out that the prolonging of the

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period of negative real interest rates could increase the risk of the emergence of the negative effects of this phenomenon. In particular, these Council members emphasised that low interest on deposits encourages households to search for assets offering higher yields and therefore also associated with higher risk. In this context, certain Council members pointed to the decrease in the level of household deposits in May. At the same time, it was observed that the relatively low interest on loans supported the rise in household debt. However, other Council members stressed that so far no negative consequences of interest rates remaining at the current level could be observed. In this context, they underlined that, although the structure of household assets could gradually change, deposits were still their largest component, while loan growth and the stable share of non-performing loans in banks' credit portfolios, did not indicate excessive indebtedness of households.

While discussing NBP monetary policy, the Council decided that interest rates should remain unchanged. The Council members assessed that, despite favourable economic conditions, good labour market conditions and gradual rise in wage growth, inflationary pressure remained limited and there were no imbalances building up in the economy. At the same time, available forecasts, including the July projection, 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 was 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 addition, the majority of the Council members assessed that the stabilisation of the interest rates would support the expected recovery in investment.

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. In the opinion of these Council members, decisions on the level of interest rates should take into account in particular the impact of negative real interest rates on lending, asset prices and savings rate in the Polish economy.

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%.

Publication date: 24 August 2017

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