Minutes of the Monetary Policy Council decision-making meeting held on 9 November 2016

Members of the Monetary Policy Council discussed monetary policy against the background of macroeconomic developments in Poland and abroad as well as the results of the November projection of inflation and GDP.

The Council reviewed the developments abroad which affect economic conditions in Poland. It was recognised that global economic growth remained moderate with uncertainty about its outlook. During the discussion on developments in the euro area, it was emphasised that national accounts data had confirmed stable GDP growth in this economy. Certain Council members noted that investment expenditures in the euro area were lower than before the global financial crisis. It was indicated that according to available forecasts, economic growth in the euro area might ease in the following quarters, albeit only slightly. It was highlighted that European industrial and export sectors had recently shown some signs of recovery. In particular, sentiment in European industrial sector is the highest in several years due to i.a. a significant increase in export orders. It was argued that this could support growth in Polish industrial output, most notably export manufacturing.

It was assessed that improving conditions in European industrial sector might be related to stabilising growth in the euro area’s external environment. In this context, it was pointed out that in the United States GDP growth had accelerated, while in China economic conditions had stabilised. It was noted that the available forecasts for the US economy were indicating that in 2017 GDP growth might be higher than in 2016, fuelled by stable consumption growth and recovery in investment activity. Against this background, some Council members pointed to uncertainty around the US economic outlook resulting from likely shifts in economic policy after the recent elections. However, their extent and spillovers were judged as vague at the time of the meeting. It was stressed that in China GDP growth – in spite of stabilisation in previous quarters – was still the lowest since the global financial crisis. Some Council members pointed to weaker lending and infrastructure investment growth in China in 2016 Q3, which might indicate subsiding fiscal and monetary stimulus in this country. In addition, certain Council members emphasised that in some emerging market economies GDP growth might decelerate again on the back of a recent decline in global oil prices.

While discussing price developments abroad, it was highlighted that price growth in the external environment of the Polish economy was still very low, but it had picked up of late. It was assessed that the rise in the annual price growth rates resulted mainly from higher crude oil prices compared to a year before, which were gradually feeding through to the energy price growth rates. It was noted that oil price futures were indicating a rise of its prices in the following quarters, albeit – as certain Council members assessed – most probably to a limited extent, given lower costs of shale extraction in the United

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States and a likely increase in oil exports by some other producers. The outlook for oil prices was, however, judged as highly uncertain, particularly if the pre-agreement on oil production cuts had not become effective at the forthcoming summit of the Organisation of the Petroleum Exporting Countries (OPEC).

Referring to monetary policy abroad, it was noted that the European Central Bank had kept interest rates at close to zero, including the deposit rate below zero, and had continued financial asset purchases. It was observed that the ECB had not confirmed its intention to scale down the asset purchases in the coming months. It was further underlined that the Federal Reserve – after a rise in December 2015 – had kept the interest rates unchanged, pointing to their probable increase in the future. It was judged that – given the results of the US election – the uncertainty about the timing of the following increase in the fed funds rate had risen. Moreover, it was observed that the US election results could raise volatility in the international financial markets.

While discussing the developments in Poland's real economy, the Council members assessed that stable economic growth continued in Poland, even though data on production and retail sales in 2016 Q3 pointed to weaker GDP growth. Attention was also drawn to a deterioration in manufacturing confidence in October. A further fall in construction output was also observed. It was attributed to a decline in investment, related to a temporarily lower absorption of EU funds stemming from the completion of the previous financial framework. Some Council members judged that lower investment activity, especially of small and medium enterprises, could have been determined by the uncertainty about the regulatory environment of business. Alongside that, some Council members pointed to ongoing recovery in the housing market, which was supportive of residential investment growth. At the same time, it was stressed that the main driver of economic growth was still rising consumer demand, supported by the gradual improvement in the labour market, favourable household sentiment and the child benefit payments under the "Family 500 plus" programme.

When discussing the economic outlook for Poland, the Council members underlined that according to the November projection, economic growth in 2016 Q4 might remain soft, and then pick up in the following quarters. The Council members emphasised that consumption would remain the major source of economic growth in the quarters to come. It was noted that under the projection, consumer expenditure would rise at a faster pace in 2017. Higher GDP growth in 2017 would also be supported by the expected increase in investment related to greater EU funds absorption, as indicated by a rise in the number of new financial framework contracts. Certain Council members noted, however, that some local governments might face constraints in co-financing investment projects. In the opinion of certain Council members, in the following quarters corporate investment should be reinforced by decreasing uncertainty about the regulatory environment of business, amid the good financial standing of firms and their high capacity utilisation.

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While analysing price developments in Poland, it was emphasised that the annual consumer price growth rate was still negative, yet deflation was subsiding. It was noted that in October the annual consumer price growth rate had been only slightly below zero. It was emphasised that the reversal of deflationary trends was also evidenced in positive annual producer price growth rate for the first time in four years. It was assessed that the increase in price growth resulted mainly from the dissipating effects of the earlier drop in global commodity prices. The other factor of higher price growth cited during the meeting was faster increase in wages compared to the previous quarters. At the same time, it was stressed that price growth was still contained by low inflation abroad and negative output gap in Poland. Against this background, it was reminded that most core inflation measures were still negative.

Referring to the outlook for price developments, the Council members observed that according to the November projection, price growth would be rising steadily to turn positive in the following quarters. The projection also indicates that in the coming years inflation will be close to the lower bound for deviations from the NBP inflation target. Besides waned effects of the earlier fall in commodity prices, price growth in 2017 will be fuelled by the acceleration in GDP growth envisaged in the projection. However, certain Council members were of the opinion that price growth rate in 2017 could be somewhat lower than anticipated by the projection. According to these Council members, weaker than projected price growth might result from likely decline in global commodity prices and slower than forecasted investment growth in Poland.

While discussing the level of the NBP interest rates, the Council judged that they should remain unchanged. The Council members confirmed their assessment that the stabilisation of interest rates helped to keep the Polish economy on a sustainable growth path and maintain macroeconomic stability. The majority of Council members assessed that an argument for keeping the interest rates unchanged was in particular the gradual increase in price growth, which – in line with the November projection – should approach the lower bound for deviations from the NBP target in the coming years. According to certain Council members, the present level of the NBP interest rates may also be conducive to a rise in the household savings rate. In the opinion of the Council, an additional argument for the NBP interest rate stabilisation was uncertainty regarding domestic and external conditions for monetary policy.

The Council members emphasised that in light of information available at the time of the meeting, stabilisation of the NBP interest rates in the following quarters was the most likely scenario. Certain Council members judged that in an event of prolonged economic slowdown and rising risk of inflation remaining below the target for an extended period of time, it would be justified to consider a decrease in the NBP interest rates. However, the majority of the Council members stressed that the Council's decisions should also take into account the impact of the level of the interest rates on the stability of the domestic financial sector.

In turn, certain Council members assessed that given the character of the factors curbing economic activity growth, the impact of a potential reduction in the NBP interest rates on the domestic economic conditions would be limited. At the same time, some Council members pointed out that should inflationary pressure appear, creating a risk of exceeding the inflation target in the medium term, it could be appropriate to raise the NBP 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%.

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