# Minutes of the Monetary Policy Council decision-making meeting held on 7 December 2016

Members of the Monetary Policy Council discussed monetary policy against the background of macroeconomic developments in Poland and abroad.

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. It was emphasised that in the euro area GDP growth was stable, yet conditions were diverse across countries. It was highlighted that in Germany economic growth had eased in 2016 Q3 on the back of lower investment in machinery and equipment and slowdown in exports. It was assessed that the latter had resulted from Germany's major trading partners, i.e. other European countries and China, growing slower than in previous years. It was noted that, in line with available forecasts, economic conditions in Germany should improve in 2016 Q4 and economic growth in euro area would remain stable in the coming quarters. It was noted that sentiment in manufacturing had improved over recent months. Certain Council members, however, remarked that this improvement might not translate into an actual rebound in corporate investment activity. In the opinion of certain Council members, investment growth in the euro area might be dampened in particular by political uncertainty in several Western European countries.

While discussing developments in other economies, attention was drawn to good economic conditions in the United States. It was stressed that in 2016 Q3 growth in the United States accelerated more than initially estimated, and labour market conditions in this country were still favourable.

While discussing price developments abroad, it was emphasised that price growth in the environment of the Polish economy was still very low, albeit gradually increasing. It was highlighted that oil prices had risen since the previous Council meeting as OPEC members and some other major oil exporters had decided to reduce their output. Some Council members assessed that oil prices should not grow in the coming quarters due to high oil supply, boosted by a renewed increase in oil production in the United States, and Iran striving to regain its market share.

Referring to monetary policy abroad, it was pointed out that the European Central Bank had kept interest rates close to zero, including the deposit rate below zero, and had continued financial asset purchases. It was assessed that the Federal Reserve was likely to increase its interest rates soon. It was emphasised that the prospect of monetary tightening in the United States, along with expected fiscal stimulus in this country, had translated into an appreciation of the US dollar and a rise in government bond yields in the United States, and, in effect, in other countries. It was also noted that many emerging market currencies, including the Polish zloty, had depreciated, with the scale of the latter


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being increased by a rise in political uncertainty in Europe around the referendum in Italy.

While discussing developments in Poland's real economy, it was noted that GDP growth had eased in 2016 Q3. It was stressed that the slowdown, like elsewhere in Central and Eastern Europe, had been caused mainly by a fall in investment related to temporarily lower absorption of EU funds after the expiration of the previous EU financial framework. As underlined by the majority of the Council members, investment growth was also contained by uncertainty among businesses. It was highlighted that lower GDP growth in 2016 Q3 had also resulted from exports growing at a weaker pace than in the previous quarter. Slower increase in Polish exports was probably attributable to muted economic growth in Poland's major trading partners, and, as underlined by certain Council members, sluggish growth of global trade. It was estimated that the annual GDP growth rate would probably remain subdued also in 2016 Q4. Apart from weak investment activity signalled by the recent data, the lower GDP growth rate would also result from a statistical base effect associated with strong economic growth a year before.

It was emphasised that domestic economic growth was still supported by an increasing pace of consumer demand growth, which in 2016 Q3 had been the fastest in eight years. Some Council members pointed to a steady increase in housing investment expenditures associated with rising demand for residential real estate. It was assessed that the acceleration in household expenditures resulted mainly from ongoing improvement in the labour market. It was indicated that the unemployment rate was the lowest in decades, while employment continued to rise and wages were growing faster than in previous years. Certain Council members noted that, despite improving labour market conditions, the unemployment rate was still strongly diversified across regions. It was highlighted that growth in household expenditures was also supported by child benefit payments. Certain Council members remarked, however, that some of the additional income gained by households from child benefits could be spent on imported goods, leading to acceleration in imports and thereby to lower contribution of net exports to GDP growth. These Council members emphasised, however, that this effect could be alleviated by higher demand for services, which are characterised with lower import intensity.

The majority of the Council members assessed that the currently observed slowdown in GDP growth was temporary, and that in 2017 economic growth should accelerate. In the opinion of the Council members, the acceleration in GDP growth should be driven by a further increase in consumption growth and a rebound in investment activity amid gradually strengthening absorption of EU funds. In this context, surveys were cited that suggested an increase in corporate investment plans. Certain Council members indicated that economic growth in the coming quarters should also be supported by a faster increase in exports, driven by stronger growth in the environment of the Polish economy and the depreciation of the zloty. Certain Council members also expressed an opinion that a shortage of qualified staff might prove a barrier to growth for Polish companies in some regions. According to certain Council members, it could not be ruled out that subdued economic growth would continue until mid-2017. According to these Council members, GDP growth might still be contained by waning impact of child benefits starting from as soon as 2017 Q2 and the fact that investment cycle for infrastructure projects might be a few quarters long. These Council members also pointed to a risk of prolonged low export growth stemming from unfavourable developments in global trade, connected i.a. with a possible increase in protectionism.

Referring to the outlook for economic growth over the longer run, certain Council members highlighted government infrastructure projects, which would prop up the production capacity of the Polish economy. These members also pointed to a recent decline in migration preference among Polish citizens. Other Council members indicated a need to boost the labour force participation rate and promote the inflow of foreign workers, which should mitigate the adverse developments associated with population ageing.

When analysing price developments in Poland, it was stressed that annual growth in prices of consumer goods and services had been rising steadily and that deflation had ended in November. It was pointed out that producer price growth had also been accelerating. It was assessed that the increase in price growth had resulted mainly from dissipating effects of the earlier sharp fall in global commodity prices. Additional factor behind the rise in price growth cited during the meeting was the ongoing wage growth, whose pace was faster than in the previous quarters. However, it was noted that price growth in Poland was contained by low inflation abroad, negative output gap in the domestic economy and low inflation expectations.

The Council members assessed that in the coming quarters price growth would continue to gradually increase, propped up by waned effects of the earlier fall in commodity prices and the expected gradual acceleration in economic growth. Some Council members also drew attention to intensifying wage pressure indicated by companies, which, along with an increase in the minimum wage in 2017, might boost nominal wage growth. The Council members were of the opinion that price growth, in spite of the acceleration, would most likely remain low in 2017. Attention was drawn to the likely stabilization of commodity prices in the coming quarters and limited inflationary pressure at home resulting from significant import intensity of the currently observed growth in consumer demand.

While discussing the level of the NBP interest rates, the Council members judged that they should remain unchanged. The Council members confirmed their assessment that the stabilisation of the interest rates helped to keep the Polish economy on a sustainable growth path and maintain macroeconomic stability. The majority of the Council members assessed that an argument for keeping the interest rates unchanged was in particular the gradual increase in price growth. As a result, despite the nominal interest rates being kept unchanged, their level will decline markedly in real terms. In the



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opinion of the Council, an additional argument for the stabilisation of the NBP interest rates was uncertainty regarding domestic and external conditions for monetary policy.

The Council members pointed out 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. This notwithstanding, they indicated that should inflationary pressure appear, creating a risk of exceeding the inflation target in the medium term, it could be appropriate to raise the interest rates. Certain Council members did not rule out a possibility of a decrease in the interest rates in the event of deepening and protracted economic slowdown. Other Council members, however, assessed that the level of the NBP interest rates was currently not a factor curbing economic growth in Poland. For this reason, in the opinion of these Council members, a reduction in the NBP interest rates would have no significant impact on economic activity, however, it could lead to imbalances in the financial and real estate markets as well as to lower household saving rate.

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: 22 December 2016



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