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

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 assessed that the rise in global economic activity remained moderate, with signs of recovery strengthening in many economies. It was emphasised that growth in the euro area was stable, although it had slowed down slightly in 2016 Q4. Nonetheless, very strong sentiment in the European economy was also brought to attention. It was noted that in the United States economic conditions were favourable, supported by improving labour market and a rebound in investment, i.a. in shale oil extraction industry, yet recent data was indicating somewhat weaker GDP growth in 2017 Q1. It was pointed out that in China economic growth was stable and the risk of a more notable slowdown had diminished. However, it was underlined that GDP growth, in line with forecasts presented by the Chinese authorities, was to decelerate in 2017. It was also highlighted that in Russia economic conditions were still weak, despite the end of the recession.

Referring to price developments abroad, it was noted that, although the annual inflation rates in many countries were significantly higher than in 2016, their rise had recently come to a halt. Attention was drawn particularly to a notable decline in inflation in the euro area in March. It was assessed that the halt in inflation growth had resulted from abating effects of the earlier rise in global commodity prices. In this context, a fall in global commodity prices in March was cited. Certain Council members argued that the major factors behind lower energy commodity prices included higher shale oil production and falling extraction costs of this commodity in the United States, as well as measures taken by some oil producers to maintain their market share. During the discussion on price developments abroad, it was also stressed that core inflation was still low in many economies, and in the case of the euro area it had even posted a decline in March.

Turning to monetary policy abroad, attention was drawn to lower monthly pace of asset purchases by the ECB starting from April. However, it was underlined that the ECB's monetary policy was still expansionary, with its interest rates close to zero, including the deposit rate below zero. It was also pointed out that, although the Federal Reserve had increased its interest rates, it was indicating that monetary policy tightening would proceed at a similar pace to previously expected. It was noted that sentiment in the global financial markets had been positive, and many emerging market currencies, including the zloty, had appreciated as a result, while share prices had risen, also on the Warsaw Stock Exchange.

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While discussing developments in Poland's real economy, it was highlighted that recent data had been pointing to an improvement in economic conditions in 2017 Q1. It was judged that GDP growth in 2017 Q1 had been slightly higher than in previous quarter, albeit still moderate. It was emphasised that economic growth was mainly driven by increasing consumer demand, supported by improving labour market conditions, reflected in further growth in employment and wages, and also by very good consumer sentiment and the child benefit payments. It was underlined that ongoing sound increase in consumer demand in 2017 Q1 was indicated by a rapid rise in retail sales. However, attention was also drawn to a deceleration in annual industrial production growth as well as a fall in construction and assembly output in February. At the same time, it was stressed that both could be attributed mainly to statistical effects. Certain Council members also pointed to industrial sector sentiment in 2017 Q1, which was the strongest in a year.

Regarding Poland’s economic outlook, the Council members underlined that in the coming quarters GDP growth should accelerate at a similar pace to the March GDP projection path. Economic growth will be supported by expected rise in investment resulting from higher inflows of EU funds, amid a steady rise in consumption. In this context, certain Council members pointed to an increasing number of contracts on the use of EU funds signed by local government units. In their opinion, good fiscal position recorded in previous years by local governments should be supportive of their investment expenditures in the coming quarters. According to certain Council members, it could not be excluded that economic growth in 2017 would be higher than envisaged in the March projection. Certain Council members judged, however, that the pace of corporate investment growth in the coming quarters was still uncertain. In addition, it was indicated that further acceleration in consumption growth could be contained by slower increase in real wages resulting from higher price growth compared to a year before.

When analysing inflation developments in Poland, it was stressed that the annual consumer price growth, after a significant rise at the beginning of the year, had declined somewhat in March. It was assessed that lower inflation had probably resulted from a fall in food prices and waning effects of the earlier global commodity price increases. Certain Council members cited a further rise in annual growth of producer prices in February, which, in their opinion, could point to intensifying cost pressure. According to certain Council members, improving economic conditions were contributing to a rise in demand pressure. Other Council members, however, emphasised that, given still negative output gap and spare capacity in the economy, demand pressure was still limited. It was also underlined that, despite improving labour market and a minimum wage hike at the beginning of 2017, wage growth, and hence the increase in unit labour costs, were still moderate. Some Council members noted in addition that the rise in the annual producer price growth rate in February originated mainly from a low base effect.

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In their assessment, this could indicate that the growth in cost pressure might have levelled off.

The majority of the Council members assessed that inflation would stabilise at a moderate level in the following quarters. They indicated that this would be supported by only gradual growth in domestic inflationary pressure related to improving economic conditions in Poland as well as decelerating growth in energy and food prices resulting from dissipating effects of the earlier increase in energy and agricultural commodity prices. At the same time, in the assessment of certain Council members, inflation might be higher than envisaged by forecasts available at the time of the meeting. These Council members did not exclude a stronger rise in demand pressure. They also pointed to an increase in inflation expectations in early 2017. Hence, they did not rule out that improving labour market could translate into stronger wage growth, and higher consumer price growth as a result.

While discussing NBP's monetary policy, the Council decided that the interest rates should remain unchanged. This decision was primarily justified by limited risk of inflation running persistently above the target in the medium term. At the same time, a decline in the real interest rates, related to higher inflation, should support the acceleration of economic growth in 2017. The Council confirmed its assessment that, given the available information, the stabilisation of the nominal interest rates helped to keep the Polish economy on a sustainable growth path and maintain macroeconomic balance.

The majority of the Council members assessed that in light of available information stabilisation of the NBP interest rates was likely also in the following quarters. According to 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, the interest rate decisions ought to reflect, in particular, the impact of negative real interest rates on asset prices and the savings rate in the Polish economy. These Council members drew attention to a gradual deceleration in household deposit growth over the previous six months, which, starting from early 2017, was accompanied by higher inflows to investment funds from the household sector.

Other Council members emphasised, however, that the level of the real interest rates was not the main factor determining the savings rate and asset prices. They highlighted that the real interest rates in Poland were higher than in other European economies, while interest on loans in real terms was still markedly positive, which contained a risk of excessive lending growth. In this context, they pointed to moderate lending growth and relatively stable residential real estate prices, despite ongoing recovery in that market.

Certain Council members assessed that a more comprehensive assessment of the impact of lower real interest rates on the economy, and hence on the monetary policy outlook, would be possible after the July inflation and GDP projection.

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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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