Minutes of the Monetary Policy Council decision-making meeting held on 6 May 2016

At the meeting, the members of the Monetary Policy Council discussed monetary policy against the background of macroeconomic developments in Poland and abroad.

While discussing the economic conditions in the environment of the Polish economy, Council members recognised that global economic activity remained moderate, amid continuing uncertainty about its outlook. It was highlighted that forecasts for global growth had been revised down by some international institutions. Attention was drawn to a renewed slowdown in GDP growth in the United States in 2016 Q1, which was assessed as an important factor that could have both direct and indirect impact on economic activity globally and in Poland. It was stressed, though, that GDP growth in the euro area, Poland's main trading partner, had remained stable. This notwithstanding, downside risks to growth in the euro area were mentioned. It was noted that household sentiment had recently deteriorated and exports of the euro area fell in early 2016 due to weaker economic conditions in emerging market economies, most notably China. These factors were assessed as downside risks to growth in the euro area. It was underlined that GDP growth forecasts for China – in spite of their recent minor upward revisions – were still pointing to continued gradual economic slowdown in this country in the coming years.

While discussing price developments abroad, it was pointed out that price growth was still weak in many countries, and in some economies, including in the euro area, it was negative. It was stressed that this was mainly due to global commodity prices, which remained low despite some pick-up in recent months, as well as the moderate growth of global economic activity. It was also indicated that inflation forecasts in many countries had been revised down in the recent period.

When discussing the economic conditions in Poland, attention was drawn to a revision of national accounts data for 2014-2015, which pointed to higher than previously estimated GDP growth in 2015 Q4. However, it was emphasised that the economic growth estimates for the previous quarters had been revised down, and that GDP growth in the whole of 2015 had remained unchanged. It was judged that in 2016 Q1 GDP growth had probably declined. It was argued that in March 2016 industrial production and retail sales growth had both decelerated markedly, and the fall in construction output had deepened. Certain Council members noted, however, that these indicators could have been affected by calendar factors. It was also highlighted that sentiment in the industrial sector, also relating to new export orders, was deteriorating, which could indicate the persistence of low industrial production growth in Poland in the following months.

Council members judged that the economic slowdown in early 2016 was probably temporary. In next quarters, GDP growth should pick up slightly, although – as some Council members emphasised – given only moderate economic growth abroad the space for strong GDP growth is limited.

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

In the coming quarters, GDP growth in Poland should be driven mainly by increasing consumption growth, supported by ongoing recovery in the labour market, further improvement in household sentiment, stable growth in consumer loans and an increase in family benefits resulting from a launch of the "Family 500+" programme. Growing corporate investment will probably also contribute to higher GDP growth, as it would be supported by sound financial standing of enterprises, their high capacity utilization and growing investment loans. It was noted, however, that the pace of absorption of funds from the new EU financial perspective was a factor of uncertainty for investment growth.

While discussing price developments in Poland, attention was drawn to ongoing deflation, which resulted to a large extent from the earlier sharp fall in global commodity prices, amid low price growth in the environment of the Polish economy and continued negative output gap. It was noted that low energy prices stemming from the earlier fall in commodity prices reduced the prices of other goods and services, translating into negative core inflation indicators. It was pointed out that currently there were no cost pressures in the economy. It was highlighted that wage growth remained moderate in spite of improving labour market conditions and PPI growth had been negative for four years. However, some Council members noted that PPI growth excluding energy-related goods was higher than growth in total PPI and close to zero.

Council members judged that although price growth in Poland had been negative for a long time, it had not adversely affected the decisions of economic agents so far. In particular, available data do not indicate the postponement of purchases by households or a reduction in corporate investment resulting from low price growth. However, some Council members expressed an opinion that currently observed investment growth was relatively low, given the high capacity utilisation and the expected improvement in economic conditions in Poland. This could suggest that deflation might reduce expected profitability of companies. Council members concluded that the impact of deflation on the financial standing and the behaviour of economic agents, in particular enterprises, should be still closely monitored.

Referring to the outlook for consumer price growth, Council members assessed that it would remain negative in the coming quarters, mainly due to the continued fall in energy prices. However, as this factor abates, consumer price growth should gradually increase, supported by ongoing stable economic growth and improving labour market conditions. Some Council members also argued that persistently limited wage growth, despite falling unemployment, was an additional downside risk to price growth in Poland. Another downside risk to price growth named by some Council members was a possible deterioration in the economic conditions abroad, which could adversely affect domestic economic growth and domestic demand pressure. In the opinion of certain Council members, a significant increase in global commodity prices could not be ruled out in the coming quarters, which could lead to a notable increase in inflation in Poland, even if accompanied with a decline in economic growth.

While discussing the level of NBP interest rates, Council members decided that they should remain unchanged at the current meeting. Council members stressed that the

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

continued negative price growth was mainly caused by external factors and deflation had no adverse effects on the decisions of economic agents. 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 balance. In addition, some Council members pointed out the need to take into account the impact of the level of interest rates on financial stability, drawing attention to heightened volatility in domestic financial markets. Certain Council members also expressed an opinion that fiscal loosening in 2016 was another significant factor which should be taken into account in the decisions on interest rates.

Council members judged that the increased uncertainty regarding the domestic and external developments also spoke in favour of a stabilisation of interest rates. In this context, attention was drawn to concerns about a global slowdown and the risk of financial turmoil caused, among others, by the possible decision of the United Kingdom to leave the European Union. Council members also argued that a stabilisation of interest rates ensured room for their adjustment in the case of shocks adversely affecting domestic economic situation and price developments. Some Council members did not rule out the possibility of interest rate cuts in the case of an economic slowdown in Poland, deepening deflation or signs that behaviour of economic agents was adversely affected by negative price growth. Certain Council members argued that interest rate cuts would stimulate economic growth in Poland, including investment expenditure. At the same time, other Council members were of the opinion that given heightened uncertainty, the impact of lower interest rates on investment growth might be limited.

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