Minutes of the Monetary Policy Council decision-making meeting held on 8 June 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 abroad, Council members recognised that global economic growth remained moderate, amid continuing uncertainty about its outlook. GDP growth in the euro area picked up in 2016 Q1, although it was judged that this acceleration was likely to be temporary because of a further drag from weak economic conditions in emerging economies. At the same time, it was stressed that despite these unfavourable external developments, in recent months there had been a marked improvement in the export sector in Germany, Poland's main trading partner. This improvement – along with a further recovery of German domestic demand – resulted in a pick-up in economic growth in Germany.

Council members drew attention to the persisting sources of uncertainty for economic conditions and political situation in the euro area countries and the remaining EU economies. Among these, they mentioned the possible decision of the United Kingdom to leave the European Union, political developments in France and Spain, the possible re-intensification of Greece's debt problem and the immigration crisis. Certain Council members also pointed to the uncertainty regarding the effectiveness of the ECB's measures undertaken to stimulate economic activity in the euro area.

Council members indicated that the United States expected to see further moderate economic growth, supported mainly by rising consumption. At the same time, attention was drawn to recent information from the labour market and services market, which might indicate that the outlook for the US economy was worse than previously anticipated. As a result, uncertainty remains about the timing of further interest rate cuts by the Federal Reserve.

Referring to the economic conditions in the major emerging economies, it was pointed out that in China recent data on industrial output, retail sales and investment indicated a further slowdown in economic activity. In turn, in Russia – according to the national accounts data – the fall in GDP was weaker in 2016 Q1. Certain Council members stressed that the higher global energy commodity prices had a positive impact on the outlook for the Russian economy, although this might be limited by the reduction in imports of energy commodities from Russia announced by some European countries.

Council members underlined that energy commodity prices – despite some increase in recent months – were still markedly lower than in previous years. Low commodity prices, combined with moderate global economic activity, were the main factors behind very low consumer price growth in many economies.

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When analysing the economic conditions in Poland, Council members drew attention to the slowdown in GDP growth in 2016 Q1. Council members noted that it was mainly driven by the fall in total investment outlays, including weaker corporate investment activity. The decline in investment was partly related to the completion of projects co-financed with EU funds under the previous financial framework as well as statistical effects related to the implementation of large investments in the energy sector in 2016 Q1. Some Council members judged that uncertainty regarding future business conditions, persuading firms to postpone investment projects, might have contributed to the slowdown in corporate investment. Certain Council members also pointed out that a certain weakening in export growth had a negative impact on GDP growth in 2016 Q1. Other Council members judged that the slowdown in GDP might have partly reflected the relatively low growth in economic activity in March 2016, which was related to fewer working days than in the corresponding month a year before.

It was underlined that GDP growth in 2016 Q1 was mainly driven by stable growth in consumer demand and an increase in stocks. Rising consumption was supported, in particular, by robust labour market with record high employment and historically low unemployment rate. In this context, some Council members judged that the level of employment might be even higher than indicated by official statistics, which do not include a significant number of employees from Ukraine. Certain Council members underlined that the growth in employment was supported by increased economic activity of older people and longer period in which people at retirement age continue their employment. In turn, other Council members judged that the growth in employment in recent months could partly result from the imposition of social security contributions on civil law contracts, leading to changes in the forms of employment of some employees. Certain Council members expressed the opinion that although the average unemployment rate in Poland was low, in certain parts of the country it remained relatively high.

While discussing the outlook for economic activity, the majority of Council members judged that the fall in GDP growth in 2016 Q1 was temporary. Some Council members pointed out that GDP growth should pick up in the coming quarters, although it would probably be somewhat lower than expected in the March projection. In the opinion of certain Council members, in the following quarters GDP growth might be curbed by the low growth in investment, partly related to the uncertainty regarding the future economic developments. Other Council members were of the opinion that GDP growth could increase markedly and exceed the forecast as early as in 2016 Q2. In this context, they pointed to the significant acceleration in industrial output and the further improvement in labour market conditions in April. At the same time, it was pointed out that the relatively high GDP growth in the coming quarters should be supported by increasing consumption growth amidst ongoing strengthening in the labour market, favourable household sentiment, and the start of family benefit payments under the "Family 500+" programme. Some Council members judged that the investment outlook

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also remained relatively favourable. They pointed to the high capacity utilisation of companies and their sound financial standing, as well as the possible disbursement of funds under the new EU financial framework in the second half of 2016. It was underlined that the possible launch of the recently announced government programme supporting investment might have boosted investment growth, although its form and timing were uncertain. Taking into account the above-mentioned factors, it was indicated that the output gap would close within the monetary policy transmission horizon. However, certain Council members underlined that an exact assessment of the economic outlook for the coming quarters was made more difficult due to the heightened uncertainty regarding the environment of the Polish economy and the investment outlook.

When analysing price developments in Poland, attention was drawn to ongoing deflation. However, Council members stressed that continued negative price growth was mainly due to external factors, including the earlier sharp fall in global commodity prices and low price growth in the environment of the Polish economy. Certain Council members were of the opinion that structural changes in retail trade, i.e. the growing market share of discount stores, might also limit consumer price growth. It was pointed out that currently there were no cost pressures in the economy. It was noted that PPI growth remained negative, although producer prices excluding energy-related goods were higher than a year before. The persistence of low PPI growth was supported by the still moderate wage growth, despite very good labour market conditions. In the opinion of certain Council members, the relatively large number of employees from Ukraine – probably earning relatively low wages – employed in the Polish labour market was a factor that curbed wage growth in the Polish economy. However, certain Council members pointed out that despite moderate wage growth, the share of wages in the operating costs of enterprises was rising.

The majority of Council members judged that the persisting deflation had not adversely affected decisions of economic agents so far. Certain Council members pointed out that although inflation expectations of economic agents were running very low, households failed to notice the fall in the general level of consumer prices and were not postponing purchases. It was also underlined that the fall in prices had not led to a decrease in profitability of enterprises so far. However, certain Council members expressed the opinion that the continued deflation could be one of the factors behind the decline in corporate investment growth. These Council members judged that given falling prices, there was growing uncertainty about the future profitability of sales, which curbed firms' propensity to embark on investment projects. Council members believed that it was necessary to continue to monitor the impact of deflation on the financial standing and the decisions of economic agents, in particular enterprises.

Referring to the outlook for price growth, Council members judged that in the coming quarters CPI growth would remain negative, while at the end of 2016 it should be positive, and in the monetary policy transmission horizon it would probably return close

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to the lower limit of deviations from the inflation target. It was indicated that, apart from the fading effects of the previous sharp falls in global commodity prices, the forecasted rise in wage growth and the increase in social benefits would boost price growth. Certain Council members underlined that a marked acceleration in wage growth in April could signal a certain wage pressure emerging in the economy. They also expressed the opinion that the pick-up in consumer growth and increase in its contribution to GDP growth could lead to a stronger reaction of prices to the changes in real economy and faster than expected growth in CPI. However, other Council members drew attention to the fact that the increase in wage growth in April could stem from the postponement of the payment of bonuses in the mining sector, and 2016 Q1 data for the whole economy did not indicate a rise in wage pressure.

While analysing the credit market conditions, Council members pointed to stable growth in household and corporate loans. Some Council members indicated that despite the stabilisation of NBP interest rates, the interest on housing loans and corporate loans had risen slightly last month. In turn, the interest on deposits offered to these entities had decreased somewhat in previous months. Certain Council members stressed that this notwithstanding, the growth of corporate deposits remained relatively high, which – in the opinion of these Council members – could be related to the firms' preference for the safe forms of investment amid heightened uncertainty. At the same time, the growth of household deposits had picked up. However, it was underlined that this was accompanied by a slower rise in the more risky forms of investment and – altogether – a slowdown in growth of total household assets.

While discussing the level of NBP interest rates, Council members decided that they should remain unchanged. Negative price growth was mainly driven by external factors. At the same time, deflation had no adverse effects on the decisions of economic agents. Moreover, negative price growth continued to be accompanied by relatively good economic conditions and a gradual improvement in labour market situation. Council members confirmed their assessment that against this background the stabilisation of interest rates helped to keep the Polish economy on a sustainable growth path and maintain macroeconomic stability.

Council members judged that the increased uncertainty regarding the domestic and external developments also spoke in favour of a stabilisation of interest rates. In addition, Council members 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 of its negative impact on the behaviour of economic agents. Certain Council members pointed out that interest rate cut would be conducive to an increase in GDP growth, in particular by stimulating investment activity. However, other Council members judged that interest rate cut could have a limited impact on investment recovery, and any possible increase in investment could lead to launching projects with

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low expected profitability. Some Council members underlined that the decision of the Council should also take into account the impact of the level of interest rates on the stability of domestic financial sector.

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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