Minutes of the Monetary Policy Council decision-making meeting held on 11 July 2018

During the meeting, the Council noted that the global economic conditions remain favourable. It was pointed out that activity in the euro area remained strong despite the forecast gradual decline in the region's GDP growth rate in 2018 and in the following years. It was noted that there was a risk of a more pronounced slowdown in this currency area, should trade tensions with the United States build up. Yet some Council members judged this risk to be limited. Certain Council members expressed the opinion that economic growth in the euro area might even be faster than forecast due to a loosening of fiscal policy in some countries of the area. At the same time, it was noted that GDP growth in the United States in 2018 would probably be higher than in 2017. It was observed that uncertainty concerning the outlook for global growth was currently elevated. Apart from the changes in international trade policy, the main risk factor to global economic conditions are developments in oil prices. It was emphasised that the heightened uncertainty about the outlook for global growth negatively affected the risk sentiment in global financial market, which was reflected in rising bond yields of many emerging market economies and in a depreciation of their currencies.

When analysing changes in commodity prices, it was noted that oil prices persisted at levels markedly higher than the year before, having fluctuated significantly in the recent period. It was observed that the increased volatility of oil prices was motivated by political and economic decisions made by some of the countries exporting this commodity (i.e. the countries of the so-called OPEC+ and the United States). Certain Council members assessed that in the longer run, oil prices might stabilise close to the current level.

While discussing inflation developments in the global economy it was observed that despite good economic conditions and higher oil prices than in the previous year, inflation abroad remained moderate. It was pointed out that this was driven by the persistently weak domestic inflationary pressures in many countries. It was assessed that the consistently low inflation in these economies over recent years might be supported by the following factors: the ongoing process of globalisation, including the growth of global supply chains and increased international flows of labour, and the weakened bargaining position of employees in wage negotiations. Certain Council members expressed the opinion that the impact of some of these factors might ease off in the future.

Referring to monetary policy in the environment of the Polish economy, it was noted that the ECB was keeping interest rates close to zero, including the deposit rate below zero. At the same time, the ECB continued to purchase financial assets, although it announced a reduction in the scale of purchases from October 2018 and the termination of the programme at the end of the year. Some Council members judged that interest rates in the euro area would remain low for an extended period of time. Attention was also drawn to interest rate increases in the Czech Republic and Romania. Yet some Council members emphasised that economic performance of those countries was different from that in Poland: inflation in the Czech Republic and Romania was above the target, core inflation was elevated and wage growth continued at a faster rate than in Poland. It was noted that the Federal Reserve had raised interest rates in June and was continuing a gradual reduction of its balance sheet, which – as certain Council members underlined – might have a downward effect on GDP growth in the United States and on global economic conditions.

Discussing the developments in Poland's real economy, it was pointed out that GDP growth in 2018 Q2 was relatively high and probably close to that observed in the previous quarter. It was indicated that economic growth was supported by rising consumption, benefiting from the increasing employment and wages, disbursement of benefits and very high consumer sentiment. It was observed that according to available forecasts, investment growth had picked up in 2018 Q2. Apart from the continued robust growth of public investment, this had probably been due to a recovery in corporate investment outlays. Export growth was assessed to have increased somewhat in 2018 Q2, which – in the opinion of most Council members – was propped up by some weakening of the zloty in the recent period. It was noted that the depreciation of the zloty reflected the drag from heightened uncertainty in the global financial markets, as in the case of many other emerging market currencies. This uncertainty also contributed to a fall in share prices on the Warsaw Stock Exchange.

With reference to the outlook for economic growth, it was pointed out that according to the July projection, GDP growth in 2018 would remain relatively high and above the level expected in March. However, in the following years economic growth would gradually slow down. Some Council members voiced the opinion that the main source of risk for the forecast GDP growth were developments in the environment of the Polish economy. Certain Council members indicated as the prevailing risk a deterioration in economic conditions abroad, which would lead to a more pronounced slowdown in economic activity in Poland. In contrast, other Council members judged that the likelihood of the unfavourable scenarios materialising might be smaller than expected, as might be their impact on the Polish economy. Moreover, economic conditions in the euro area could benefit from the expected easing of fiscal policy in some economies of the region. In effect, according to those Council members, GDP growth in Poland in the following years might be higher than envisaged in the July projection.

While analysing the current developments in the labour market, a further rise in employment and a fall in the unemployment rate were highlighted. It was emphasised that these developments were accompanied by stronger wage growth than in the previous year. However, some Council members stressed that wage growth had remained stable since the beginning of 2018. These members underlined that the results of the July projection indicated a stabilisation of wage growth also in the subsequent quarters. They judged that this would be underpinned by the high – and rising – share of enterprises not planning pay rises in the nearest future. They also emphasised that the continued inflow of foreign workers was curbing the extent of wage growth. However, other Council members argued that wage growth might accelerate in the following quarters, especially should the demands of pay rises in the public sector – already observed in some occupational groups – mount. These members judged that any rises in the public sector might in turn spur an increase in wage pressure in the private sector.

Discussing inflation developments in Poland, it was observed that the annual consumer price growth had increased in June as a result of rising fuel prices. At the same time, inflation net of food and energy prices was lower than at the beginning of the year, and service price growth had slowed down. In the assessment of some Council members, this suggested that domestic inflationary pressure continued to be weak, despite the relatively high economic growth and faster wage growth than in the previous year. Other Council members assessed that the recent decline in service price growth had probably been temporary.

While discussing the outlook for price growth, it was indicated that in line with the July projection, inflation in 2018 would be lower than previously expected and stand at 1.8%. Some Council members emphasised that the inflation forecast had been revised downwards in 2018, despite the increase in oil prices in the global markets and the recent depreciation of the zloty. They underlined that the downward revision of price growth resulted from a marked decline in core inflation forecasts, observed despite higher GDP growth than previously expected. The Council members pointed out that according to the July forecast, in the following years inflation was expected to increase gradually. Most Council members judged that in line with the July projection, inflation would remain close to the target in the projection horizon. Yet certain Council members judged that consumer price growth might be higher than the July projection envisaged due to the stronger-than-forecast GDP growth, faster wage growth and the renewed rise in service price growth. These members expressed the opinion that inflation might be additionally enhanced by a stronger pass-through of the rise in global oil prices to fuel prices, resulting from pricing policies of Polish fuel producers. They also emphasised the forecast rise in core inflation. In turn, other Council members judged that inflation might be lower than the July projection envisaged due to core inflation rising more slowly. They expressed the opinion that the absence of a rise in core inflation so far, despite very good economic conditions, increases the probability of its limited growth in the following quarters, especially in the face of the expected slowdown in GDP growth.

The Council members also noted that no clear signs of imbalances were currently observed in the economy. In particular, it was emphasised that credit to the non-financial sector was growing at a moderate pace, and the real lending rates remained at solidly positive levels. Growth of the main monetary aggregates was also moderate. However, certain Council members assessed that the persisting level of reference rate – negative in real terms – might increase the risk of imbalances emerging in the economy, especially in the credit and real estate markets. They highlighted the relatively fast, in their opinion, rise in consumer loans and the resulting high level of household debt compared to other European countries.

While discussing NBP monetary policy, the Council decided that currently interest rates should remain unchanged. The Council judged that current information, as well as the results of the July projection, indicated a favourable outlook for economic activity growth in Poland, despite the expected slowdown in GDP growth in the subsequent years. At the same time, in line with the projection, in the monetary policy transmission horizon inflation will remain close to the target. As a result, the Council judged that the current level of interest rates was conducive to keeping the Polish economy on a sustainable growth path and maintaining macroeconomic stability.

The majority of the Council members expressed the opinion that, taking into account current information, the stabilisation of interest rates in the quarters to come would continue to help meet the inflation target, while supporting the maintenance of balanced economic growth, including a further recovery in investment. Moreover, these Council members pointed out that the need to take into account monetary conditions in the immediate environment of the Polish economy, as well as the heightened uncertainty about the outlook for the global economy, also spoke in favour of keeping the current level of interest rates in the coming quarters.

In the opinion of some Council members, should incoming data and forecasts suggest a further increase in wage growth and a more marked intensification of inflationary pressure than currently expected, it might be justified to consider an increase in the NBP interest rates in the coming quarters.

A view was also expressed that in the event of a significant decline in economic activity indicators accompanied by a marked deterioration in consumer and corporate sentiment, in the longer run it might be justified to consider a decrease in 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%, the rediscount rate at 1.75%.

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