Minutes of the Monetary Policy Council decision-making meeting held on 4 October 2017

Members of the Monetary Policy Council discussed macroeconomic developments abroad analysing their impact on economic conditions in Poland. It was indicated that global economy continued to recover. Particular attention was drawn to a rise in GDP growth in the euro area over previous quarters, supported mainly by consumption, with somewhat slower investment growth in 2017 Q2. It was emphasised that, according to available data and forecasts, in 2017 GDP growth in the euro area should be stable and somewhat higher than previously expected. At the same time, it was noted that forecasts for growth in exports of the euro area, Poland's main trading partner, had been revised downwards. In addition, it was assessed that economic conditions in the United States were strong. Yet, it was also judged that adverse weather conditions could have had a temporarily negative impact on the US economic activity over recent months. In turn, in China, monthly indicators suggested that GDP growth might slow down slightly in 2017 Q3.

Referring to price developments in the world economy, it was pointed out that despite the ongoing global recovery, inflation abroad remained moderate. It was emphasised that this was caused by persistently low domestic inflationary pressure in many countries. Certain Council members stressed that the reasons for the persistence of low global inflation were highly uncertain, with stronger economic connections within global value chains being cited as one of the likely reasons. It was pointed out that, according to available forecasts, in the coming years inflation should remain moderate, particularly in the euro area, where it was to run below the level consistent with the ECB's definition of price stability.

During the discussion it was noted that prices of some commodities, including oil, had risen somewhat of late. However, it was judged that the rise in oil prices had resulted from temporary factors, including the adverse weather conditions in the United States and geopolitical factors. Yet, the Council members underlined that the rise in oil price was still contained by high oil supply attributable, most notably, to heightened shale oil production in the United States. It was pointed out that following a decline caused by weather conditions, shale oil extraction had rebounded at the beginning of October, while exports of this commodity from the United States had surged.

Regarding the monetary policy abroad, it was highlighted that the European Central Bank was keeping interest rates close to zero, including the deposit rate below zero, and was continuing its asset purchase programme. It was indicated that the market participants expected that the ECB would probably continue to purchase financial assets in 2018, albeit at a diminishing pace. Moreover, the ECB still signals that it will keep its interest rates unchanged, even after asset purchases come to an end. It was observed also that the interest rates were low in Central and Eastern European economies. Referring to

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the US monetary policy, it was noted that the Federal Reserve continued to gradually reduce the amount of monetary policy accommodation. In particular, the US central bank is starting to wind down its balance sheet, though at a gradual pace. It was underlined that, in line with the Federal Reserve’s announcements, the bank's balance sheet would not return to the pre-crisis level in the coming years. It was also emphasised that the Federal Reserve had lowered its expectations regarding the interest rates over the longer run. As a result, the interest rates in the coming years will probably remain lower than before the global financial crisis.

While discussing developments in Poland's real economy, the Council members judged that the economic conditions in Poland were favourable. It was underlined that economic growth was still driven primarily by increasing consumer demand, supported by rising employment and wages, disbursement of benefits and very good consumer sentiment. Yet, it was indicated that investment expenditures remained low. However, it was assessed that higher use of EU funds and an acceleration in construction and assembly output growth pointed to a gradual recovery in fixed capital formation. In the opinion of certain Council members, the scale of the expected recovery in investment remained unclear. It was also noted that industrial output growth had picked up in August, whereas economic activity indicators in this sector had improved again in September. At the same time, certain Council members cited still moderate leading economic indicators.

With reference to labour market conditions, it was pointed out that further growth in employment was accompanied by an acceleration in wage and unit labour cost growth. However, it was stressed that wage growth, even though it had accelerated, remained moderate and markedly lower than in some Central and Eastern European economies. It is contained by the inflow of foreign employees to Poland as well as higher labour force participation among Poles. At the same time, many Council members were pointing to a risk of further intensification in wage pressure. In this context, it was indicated that enterprises were reporting growing difficulties in finding employees. However, some Council members emphasised that, at the time of the meeting, it was hard to assess whether these difficulties would translate into higher wage growth or rather become a barrier to growth for enterprises. Certain Council members expressed the opinion that protracted low investment growth might restrain productivity growth over longer run and thereby add to unit labour cost growth.

When analysing price developments in Poland, it was indicated that the annual growth in consumer prices remained moderate and stood at 2.2% in September, i.e. was slightly higher than expected. At the same time, it was stressed that core inflation continued at a low level. The majority of the Council members underlined that, given available forecasts, inflation would remain moderate in the following quarters. They argued that this would result from moderate price growth in the environment of the Polish economy, alongside a gradual rise in domestic inflationary pressure stemming from improving economic conditions at home.

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At the same time, in the opinion of some Council members, in the coming quarters inflation could be higher than forecasted at the time of the meeting due to stronger growth in wage and cost pressures. In this context, they pointed to a pick-up in producer price growth, also with energy prices excluded. Certain Council members expressed an opinion that the gas mandatory stock requirement imposed recently on importers of this commodity could be a factor supportive of an increase in its prices. Certain Council members were of the opinion that, given the underlying trends in some economic variables, inflation might exceed the target in the medium term, particularly in the event of a negative supply shock.

Referring to developments in monetary aggregates, it was stressed that lending to the non-financial sector was growing steadily, in line with the nominal GDP growth rate. In particular, it was emphasised that, despite the ongoing recovery in the real estate market, mortgage lending growth was stable. It was also noted that a decline in the value of household deposits had come to a halt in August. However, certain Council members judged that households could still be shifting funds from bank deposits towards riskier assets.

While discussing NBP monetary policy, the Council decided that interest rates should remain unchanged. The Council assessed that, despite the favourable economic conditions and wage growth higher than labour productivity growth, inflationary pressure remained limited and there were no imbalances building up in the economy. The majority of the Council members judged that in the coming quarters inflation would remain moderate, thus the risk of inflation running persistently above the target in the medium term was limited. As a result, the majority of the Council members assessed that stabilisation of the NBP interest rates was likely in the coming quarters. It was underlined that the stabilisation of interest rates would allow to meet the inflation target, and at the same time support the expected recovery in investment.

In the opinion of some 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, decisions on the level of interest rates should take into account in particular the impact of negative real interest rates on lending, asset prices and savings in the Polish economy, and also changes in unit variable costs. An opinion was also expressed that future decisions of the Council should account for developments in inflation expectations.

A view was expressed that in the event of a significant decline in economic 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 judged that – given the available information – the stabilisation of interest rates helped to keep the Polish economy on a sustainable growth path and maintain macroeconomic stability. Some Council members stressed that the next projection of

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inflation and GDP would be important for an assessment of the outlook for monetary policy in the coming quarters.

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%.

Publication date: 26 October 2017

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