Minutes of the Monetary Policy Council decision-making meeting held on 4 November 2015

Members of the Monetary Policy Council discussed monetary policy against the background of macroeconomic developments in Poland and abroad as well as the results of the November projection of inflation and GDP.

When discussing economic activity abroad, the Council members underlined that the continued recovery in developed countries had been accompanied by a slowdown in GDP growth in the largest emerging economies, and even recession in some of them. They pointed out that in the United States – despite the sustained recovery – recent incoming data had been somewhat weaker. In this context, Council members highlighted the decline in GDP growth rate in 2015 Q3, slower improvement in the labour market, lower growth of industrial output and deterioration of business sentiment. However, it was judged that the slowdown in economic activity growth in the United States had been most likely temporary.

Council members underlined that in the euro area economic growth continued at a stable, although moderate, rate. Economic growth had been supported by improving consumer demand and growing exports, partly related to the previously observed weakening of the euro exchange rate. At the same time it was pointed out, that investment growth had remained low. Some Council members judged that economic activity in the euro area was supported by the expansionary monetary policy of the European Central Bank. However, certain Council members were of the opinion that the main factor behind the growth in demand in the euro area economy was the sharp fall in commodity prices, which increased real disposable income, while the impact of the ECB's monetary policy on the economic activity was negligible.

While discussing the economic outlook in the euro area, some Council members pointed out that the slowdown in growth in the emerging economies, including China and Russia, was a risk factor for the euro area economy. This slowdown had already translated into a fall in euro area exports to these economies. However, some Council members emphasised that in the recent period the risk of a sharp slowdown in economic growth in China had declined, which was indicated by the better than expected GDP data. Moreover, they pointed out that the economic slowdown observed so far in China had not had strong negative impact on economic activity in the euro area. Certain of these members also argued that – despite the slowdown – growth in China would remain markedly higher than in the developed economies, therefore it would not significantly limit GDP growth in the euro area. Moreover, certain Council members pointed out that the influx of immigrants could support economic activity through higher consumption and housing investment. Growth in the euro area could be also supported by investment financed by the European Fund for Strategic Investments.

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

Referring to monetary policy of the major central banks, Council members emphasised that uncertainty about its outlook persisted. It was pointed out that despite the somewhat worse data in the United States, the Federal Reserve announced interest rate hike in the coming months. On the other hand, the ECB was signalling further monetary policy easing due to the persistence of very low price growth in the euro area.

Council members emphasised that expectations of the ECB's monetary easing and better than expected data from China had contributed to an improvement in sentiment in the financial markets. However, some Council members judged that volatility in the financial markets could once again increase along with the beginning of Fed's monetary policy tightening, particularly in the context of continued risks to the economic situation in the emerging economies, including China.

Referring to the economic situation in Poland, Council members pointed out that economic activity continued to expand steadily and that domestic demand remained the main driver of growth. It was emphasised that the situation in the labour market further improved, and employment in enterprises – like the number of job vacancies – was relatively high. At the same time, the unemployment rate was close to the pre-crisis level. Moreover, some Council members pointed to the acceleration in wage growth in enterprises in the recent month. Council members underlined that the robust labour market and the increase in the wage fund supported stable consumption growth. However, some Council members judged that consumption growth remained relatively low, which could be due to the sustained increase in the household saving rate, observed despite the low nominal NBP interest rates.

When addressing the business conditions in Poland, Council members pointed to the stable growth in industrial output and the continued good situation of enterprises as indicated by business sentiment surveys. It was emphasised that these surveys suggested that despite the economic slowdown in China, Polish enterprises had not so far experienced considerable fall in sales. However, some Council members argued that despite the good economic situation, many enterprises were refraining from investments. They judged that this could be due to the continued uncertainty about the situation in the global economy or the lack of conviction as to the sustainability of the recovery in demand in Poland.

While analysing the situation on the credit market, Council members pointed to the stable growth in lending in the economy, with a slight deceleration in lending to households and an increase in corporate lending growth. Certain Council members stressed that corporate demand for credit remained low due to the significant share of companies' own funds in financing investments. It was also underlined that in the housing credit market there were no signs of growing imbalances.

While discussing inflation developments in the economy, Council members emphasised that consumer price growth remained negative. It was pointed out that in October price growth was once again lower than its forecast. However, it was judged that low price growth remained to be a global phenomenon and resulted mainly from

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

the sharp fall in commodity prices in the global markets. At the same time, Council members emphasised that low price growth was accompanied by stable GDP growth and improving labour market conditions. Certain Council members pointed out that the fall in prices – largely driven by low commodity prices – supported real incomes of consumers and limited production costs of enterprises.

While discussing the November projection, it was pointed out that the coming quarters were expected to see further stable GDP growth, supported by domestic demand. At the same time, it was emphasised that the contribution of net exports to growth would remain negative. Despite this, Council members pointed to the lack of significant risk to the external balance of the economy. Some Council members judged that – in line with the projection – GDP growth in 2016 could temporarily decrease. This fall, however, would be associated with a temporarily lower inflow of EU funds due to the beginning of absorption of funds from the new budgetary perspective. However, certain Council members emphasised that the GDP growth forecast for the coming years was slightly lower than in the previous projection, which partly resulted from a downward revision of forecast for corporate investments.

While analysing the results of the projection, Council members pointed out that due to stable GDP growth continuing above the potential rate, the output gap would gradually close. However, certain Council members expressed the view that so far observed and projected investment growth, would raise the potential output. As a result, growth of potential GDP could be faster than in the projection, which along with the forecast growth of actual GDP might not lead to the closure of the output gap in the projection horizon. At the same time, certain Council members emphasised that the lowering of the equilibrium unemployment rate would be a factor increasing the potential output of the economy and would simultaneously limit wage pressure in the economy.

While discussing the outlook for inflation in the context of the projection, Council members judged that in the coming quarters price growth would slowly increase. Price growth would be supported by stable growth in demand observed against the background of an improving economic situation in the euro area and the robust domestic labour market. At the same time, certain Council members pointed out that the period of deflation had prolonged, and the expected return of inflation to the target in the projection had receded. Certain Council members expressed the opinion that since they expected low commodity prices to persist in the global markets, and due to the limited growth of demand in the environment of the Polish economy, and therefore also in Poland, there was a risk of price growth continuing at a very low level for more prolonged period.

While referring to the projection, Council members pointed to the risk to the base scenario. The continued uncertainty about the global outlook, commodity prices and price growth in the environment of the Polish economy were emphasised. It was also

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

stressed that due to the appointment of the new government, there was uncertainty about the future economic policy, particularly the shape of fiscal policy in the next year.

While discussing interest rates, the Council assessed that they should remain unchanged. While justifying this decision, Council members argued that in the coming quarters price growth would rise slowly, which would be driven by stable economic growth and the gradual closing of the output gap. Council members emphasised that prolonged deflation in Poland was mainly related to the factors beyond the reach of domestic monetary policy, among others, low commodity prices and low price growth abroad. Certain Council members also expressed the opinion that although GDP growth might remain below potential, the source of the negative output gap would continue to be external, and therefore it would remain beyond the influence of domestic monetary policy.

Some Council members argued that an additional factor in favour of a stabilisation of interest rates was the persisting uncertainty about the economic outlook abroad and the monetary policy of the main central banks, which could contribute to volatility in the financial markets, including volatility of exchange rates of the emerging economies. Some Council members also stressed the uncertainty about the shape of future economic policy, which should be taken into account in monetary policy decisions in order to ensure an optimal macroeconomic policy-mix.

Certain Council members were of the opinion that although interest rates should remain unchanged at the current meeting, in the coming months it could not be excluded that a slight lowering of the rates might be needed. While justifying this view, these members pointed to the risk of deflation persisting longer than expected which would shift the prospects of inflation returning to the target, and the risk of a slowdown in economic growth.

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