

Minutes of the Monetary Policy Council decision-making meeting held on 5 December 2017

Members of the Monetary Policy Council discussed macroeconomic developments abroad, analysing their impact on economic conditions in Poland. It was emphasised that recovery continued in the global economy, as reflected in the data on industrial output, labour market, sentiment of economic agents and international trade. It was indicated that the recovery in international trade was supporting economic conditions in the euro area, where economic growth remained higher than in 2016. Attention was also drawn to improvement in labour market conditions in the euro area. Yet, it was observed that the unemployment rate in this economy, in spite of ongoing decline, was still higher than before the global financial crisis. During the discussion on the external environment of the Polish economy, it was indicated that economic conditions in the United States remained favourable, while industrial output growth in this economy had accelerated and employment reached record highs, translating into higher than in previous quarters retail sales growth.

Referring to price developments in the world economy, it was underlined that, despite the global recovery, inflation abroad remained moderate. It was assessed that this was caused by the persistently weak domestic inflationary pressure in many countries. It was observed that core inflation remained low in many advanced economies. It was highlighted that price growth was moderate particularly in the immediate environment of the Polish economy, most notably in the euro area, and also in Central and Eastern Europe in spite of a sizeable economic recovery and robust wage growth there. It was indicated that in recent years the links between economic conditions, wage growth and inflation had weakened in many countries.

While analysing commodity price developments, it was pointed out that oil prices were higher than in previous quarters, yet signs of their stabilisation had appeared in recent weeks. It was observed that the prices of this commodity might remain stable in the coming quarters. The Council members stipulated flexible supply of shale oil in the United States and some producers striving to retain their market shares as the likely factors behind the stabilisation of oil prices. With reference to the remaining energy commodities, it was indicated that prices of coal and natural gas were higher than in previous quarters.

Regarding monetary policy abroad, it was highlighted that the Federal Reserve had started reducing its balance sheet in October, and that in December it would probably raise its interest rates. However, it was observed that uncertainty persisted as to the scale and timing of further interest rate rises by the US central bank. Moreover, in this part of the discussion it was emphasised that the European Central Bank was keeping interest rates close to zero, including the deposit rate below zero, and continued to purchase financial assets. It was also observed that the ECB was still announcing that interest rates would remain at their current levels, even after the end of the asset purchase programme. It was

emphasised that in other countries in the immediate environment of the Polish economy, particularly in Central and Eastern Europe, interest rates also remained close to zero.

Turning to developments in Poland's real economy, the Council members pointed out that annual GDP growth had accelerated to 4.9% in 2017 Q3, i.e. it was higher than envisaged in the projection. It was observed that growth was still driven primarily by consumer demand, supported by rising employment and wages, disbursement of benefits and very good consumer confidence. It was also indicated that stronger than projected GDP growth was mainly due to a significantly higher export growth rate related to the recovery in the external environment of the Polish economy, particularly in the euro area. It was underlined that gross fixed capital formation had also risen in 2017 Q3, albeit at a slower pace than expected in the projection. Attention was drawn to the fact that the rise in investment had resulted mainly from higher public investment. In this context, it was observed that investment growth in firms outside the mining and energy sectors had increased substantially in 2017 Q3. Yet, certain Council members emphasised that the level of corporate investment was still lower than before 2016.

It was judged that the favourable economic conditions would continue in Poland in the coming quarters, although GDP growth might decelerate slightly in the following years. Economic activity will still be supported by stable consumption growth, accompanied with a further rise in investment growth rate. As certain Council members emphasised, the latter is indicated by the rising absorption of EU funds. Yet, these members noted that the trend had so far been observed mainly in the public sector. It was also judged that, given high capacity utilisation and a concurrent rise in demand, a further rise in the corporate investment growth rate was likely in the coming quarters. However, gradual fading of the statistical effects of the "Family 500 plus" programme and the expected deceleration of economic growth in the euro area would contain GDP growth.

With reference to labour market conditions, it was noted that the number of persons working in the economy had continued to rise, albeit at a slower pace than in previous quarters and, consequently, the unemployment rate continued to fall. It was highlighted that, although in the corporate sector growth in wages and wage bill had accelerated somewhat, in the entire economy wage growth had remained stable in 2017 Q3. It was judged that wage growth in the economy could have been limited by the wage freeze in the public sector, and, possibly, a slower pace of wage growth in smaller enterprises, which employ a large proportion of workers. It was stressed that, in line with the most recent data, the wages of a considerable part of the employed were still only slightly higher than the minimum wage, additionally curbing inflationary pressure. Attention was also drawn to the relatively high labour participation rate which, along with a significant number of foreign employees, may be containing wage growth in Poland. Certain Council members emphasised, however, that the percentage of companies with wage growth increasing faster than labour productivity growth was lower than in the previous year. It was also underlined that unit labour cost growth in the entire economy had decelerated considerably in 2017 Q3. As a result, the majority of the Council members judged that

despite low unemployment and recruitment difficulties reported by some companies, the labour market did not generate any significant inflationary pressure for the time being.

As regards inflationary developments in Poland, it was pointed out that annual consumer price growth had increased in November to 2.5%. It was noted that the main factors behind the rise in inflation was high food price growth and markedly higher than in previous years energy price growth. It was also pointed out that the higher energy price growth was associated with rising energy commodity prices in the global markets. In addition, it was emphasised that core inflation net of food and energy prices remained low, despite relatively high consumption growth.

When discussing the outlook for inflation, the majority of the Council members assessed that, given the available information, inflation would remain close to the target over the projection horizon. These members pointed out that core inflation was likely to rise only gradually in the following quarters. It was judged that the price growth would most likely be contained by low inflation in the environment of the Polish economy and a decline in GDP growth rate expected in the coming quarters. In addition, statistical base effects would dissipate in the coming months, which should constrain growth in energy prices.

At the same time, some Council members drew attention to the upside risks to inflation. In their opinion, low corporate investment might translate into weaker labour productivity growth, thus boosting unit labour costs and inflation in the longer term. They also expressed the opinion that ongoing low investment in the mining and energy sectors could prop up energy price growth. Certain Council members argued that costs incurred by natural gas importers could be increased due to the requirement to hold natural gas reserves.

While discussing NBP monetary policy, the Council decided that currently interest rates should remain unchanged. The Council judged that the current interest rate level helped to keep the Polish economy on a sustainable growth path and maintain macroeconomic stability. It was pointed out that in the light of the available information, inflation would remain close to the target in the projection horizon. At the same time, attention was drawn to external trade surplus, persisting despite relatively fast GDP growth, as well as to the fact that lending growth remained close to nominal GDP growth.

The majority of the Council members expressed an opinion that, taking into account the present information, interest rates were also likely to remain stable in the coming quarters. These Council members judged that the stabilisation of interest rates would continue to help meet the inflation target, while supporting the maintenance of balanced economic growth, including the further expected recovery in investment. Moreover, these Council members pointed out that the need to take into account the monetary conditions in the immediate environment of the Polish economy also spoke in favour of keeping the current level of interest rates.

In the opinion of some Council members, should data and forecasts incoming in the following quarters suggest a more marked intensification of inflationary pressure, most

notably associated with a possibility of a stronger acceleration in wage growth, it might be justified to consider an increase in the NBP interest rates in the quarters to come. In the opinion of these Council members, interest rate decisions should also take into account the impact of negative real interest rates on lending, asset prices and savings in the Polish economy. The Council members judged that developments in inflation expectations would also be important for monetary policy decisions.

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 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% and the rediscount rate at 1.75%.

During the meeting the remuneration on the required reserve was also discussed. Certain Council members pointed out that decreasing the remuneration on the required reserve should help manifest its mandatory character. The majority of the Council members pointed out that the remuneration of the required reserve, combined with the decision not to calculate the reserve requirement ratio on funds raised from domestic entities for at least a two-year period, should help to lower the scale of the maturity mismatches between assets and liabilities of Polish institutions that are subject to mandatory reserve requirements. An opinion was also expressed that the reserve requirement system should not be modified until the decision not to calculate the reserve requirements on funds raised from domestic entities for at least a two-year period came into effect.

The Council adopted a resolution on the remuneration on the required reserve. In line with this resolution, the remuneration of the required reserve will amount to 0.50%. The resolution comes into force on 1 January 2018.

Publication date: 21 December 2017