Minutes of the Monetary Policy Council decision-making meeting held on 9 January 2019

During the meeting, the Council noted that global economic conditions have remained favourable so far, although incoming data suggest their weakening in some economies, and higher uncertainty about the scale of the expected global slowdown. It was pointed out that in the euro area, following a decline in GDP growth in 2018 Q3, some survey indicators continued to deteriorate. In particular, a marked weakening was visible in the activity and survey indicators for Germany, which is Poland's main trading partner. It was emphasised that in the United States, economic conditions were still very strong in 2018 Q4, yet 2019 forecasts point to slower growth also in this economy. It was observed that in China activity growth has been gradually slowing down as well.

It was pointed out that heightened uncertainty about the scale of weakening of the global outlook continued to have an adverse effect on some asset prices. In the last months of 2018, fears about the global economic slowdown contributed also to a decline in the prices of commodities, including oil. At the same time, it was observed that lower oil production in OPEC member states boosted oil prices somewhat at the beginning of 2019.

When analysing inflation developments abroad, it was pointed out that the marked decline in oil prices between the beginning of October and the end of December translated into lower inflation in many countries. Alongside that, core inflation in the external environment of the Polish economy, including the euro area, remained moderate.

Referring to monetary policy in the external environment of the Polish economy, it was noted that the ECB was keeping interest rates close to zero, including the deposit rate below zero. Although in 2018 the ECB terminated the net purchase of financial assets, it will continue to reinvest the funds from the maturing securities. At that point, some Council members presented the opinion that given the deteriorating economic conditions in the euro area and a downward revision of the core inflation path anticipated for the euro area, the period in which the ECB will continue to keep its policy rates very low will probably be extended. Other Council members additionally assessed that the termination of the net asset purchase programme by the ECB is an uncertainty factor for this economy. In turn, the Federal Reserve of the United States raised interest rates in December 2018. Some Council members reaffirmed their opinion that in this economy too, due to the risk of a sharper than previously expected slowdown, interest rates might not be raised further, as indicated by the softer rhetoric of the Federal Reserve representatives in this regard.

Discussing the developments in Poland’s real economy, it was underlined that incoming data are indicative of economic conditions remaining strong so far. It was noted that activity growth continued to be driven by rising consumption, albeit at a

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slightly slower pace than in previous quarters, fuelled by increasing employment and wages, together with very strong consumer sentiment. It was pointed out that this was accompanied by rising investment.

With regard to the outlook for domestic economic activity, it was emphasised that despite the anticipated deceleration in GDP growth, it remained relatively favourable, and the expected slowdown abroad would be the key factor adversely affecting GDP growth. At the same time, some Council members drew attention to a decline in the PMI index related to lower indicators of output and new orders, including export orders. Those Council members judged this to be a sign of higher uncertainty about future GDP growth in Poland. Some Council members pointed out that the smaller inflow of foreign employees, related, among others, to changes in Germany's immigration policy, could in the longer term have a hampering effect on Poland's output growth. Certain Council members reiterated their opinion that GDP growth in 2019 might be higher than currently forecast.

While analysing developments in the labour market, it was pointed out that the unemployment rate remained low, which at the end of 2018 was accompanied by accelerated wage growth both in the whole economy and the corporate sector. It was noted that this probably resulted from a pick-up in wage growth in the public sector, but also from the shifts in payments of bonuses in the mining sector. Certain Council members stressed that most firms covered by NBP surveys report wage growth exceeding labour productivity growth. These Council members also remarked that pay rises for the successive groups of employees in the public sector may pose a risk of faster wage growth and thus higher inflation. At the same time, some Council members assessed that higher wage growth, amid the potential weakening of external demand, may have a stabilising effect on economic conditions and support inflation at levels close to the target.

Discussing inflation developments in Poland, it was underlined that despite the relatively fast GDP growth and higher wage growth than in the previous year, the annual consumer price growth, including core inflation, was markedly lower than forecast. It was noted that in December, inflation was running below the lower limit for deviations from the inflation target. Similarly, producer price growth proved lower than forecast.

Turning to the near-term outlook for inflation, it was highlighted that this changed significantly due to the adoption at the end of 2018 of a law reducing the excise duty and transitional fee related to energy, as well as introducing compensation payments for electricity providers designed to keep electricity prices charged to end-consumers in 2019 at the level of mid-2018. It was pointed out that as a result, the rise in wholesale energy prices observed in 2018 should not feed through, either directly or indirectly, to the 2019 inflation. It was remarked that in 2019 inflation would be additionally limited by lower oil prices than earlier forecast. Yet certain Council members pointed out that the fall in global oil prices may not fully translate into a fall in domestic fuel prices due to the structure of the fuel market in Poland. Certain Council members also indicated higher than in previous quarters coal prices as a factor which might boost households' maintenance costs in 2019. However, taking into account all new information received since the previous meeting of the Council, it was assessed that inflation in 2019 might be markedly lower than could earlier be expected.

With reference to the anticipated path of price developments in the medium term, the majority of the Council members were in agreement that within the monetary policy transmission horizon inflation would remain close to the target. These Council members noted that the expected slowdown in GDP growth in the coming years, coupled with high competition in retail trade, would have a curbing effect on price growth. Other Council members pointed to the expected increase in core inflation, including service price growth, in the quarters to come, and to the risk of a substantial rise in energy prices in the future. Moreover, certain Council members indicated the recent rise in firms' and households' inflation expectations, which – should it prove lasting – may be a factor boosting inflation in the following years. Other Council members judged that inflation expectations at the end of 2018 were probably heavily influenced by debates about levels of energy prices, and so their rise could prove temporary.

Summing up the conclusions following from the analysis of the macroeconomic developments in 2018, the Council members highlighted that economic growth in Poland remained high, and inflation declined slightly compared to 2017. It was pointed out that lending to the private sector had been rising at a moderate pace, external trade had continued to post a surplus and the public sector debt to GDP ratio had probably diminished. Some Council members underlined that the declining ratio of public debt to GDP was supported not only by fiscal policies, but also by good economic conditions and a stable interest rates. Long-term inflation expectations remained anchored at the inflation target, while the annual average exchange rate of the zloty against the euro did not change in relation to 2017, despite periodic turmoil in the global financial markets. In the opinion of the Council, the data for 2018 confirm very good economic conditions in the Polish economy, accompanied by price stability and the absence of macroeconomic imbalances.

When discussing NBP monetary policy, the Council decided that interest rates should remain unchanged. In the Council's assessment, current information indicates a relatively favourable outlook for economic conditions in Poland, although a gradual slowing in GDP growth is expected in the years ahead. At the same time, it was pointed out that according to current forecasts, the annual price growth will probably increase in the coming months, however – due to the decline in oil prices and the freeze on electricity prices – the scale of this increase will be significantly smaller than that expected in the November projection. In the medium term, the expected slowdown in economic growth will have a dampening effect on inflation. As a result, in the monetary policy transmission horizon inflation will remain close to the target. Thus, the Council

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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, interest rates were also likely to remain stable in the coming quarters. These Council members pointed out that this assessment was supported by the limited risk of inflation permanently exceeding the target, along with a likely weakening of economic conditions globally and in Poland.

Certain Council members emphasised that currently significant uncertainty existed about developments in the CPI index in the medium term. These Council members pointed out that should incoming data indicate a significant and lasting increase in inflation expectations and wage demands translating into price pressure, which would make successive projections suggest that inflation will remain above the target in the monetary policy transmission horizon, it might be justified to consider an increase in the NBP interest rates in the coming quarters. However, these Council members pointed out that the likelihood of such a scenario had declined in recent months.

A view was also expressed that in the hypothetical event of a slump in economic activity 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 or the introduction of unconventional monetary policy instruments.

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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