Minutes of the Monetary Policy Council decision-making meeting held on 8 January 2020

During the meeting, the Council pointed out that activity growth in the world economy remained relatively weak, although signals concerning a possible trade agreement between the United States and China had translated into some improvement of the sentiment in the global economy at the end of 2019. Attention was also drawn to a slight increase in the global manufacturing PMI and a slower decline in the global trade. Despite this, uncertainty about the global economic outlook for the quarters to come persists. This uncertainty might be aggravated by a rise in the geopolitical tensions in the Middle East and the risk of oil prices rising further.

In the euro area, amid an ongoing downturn in industry, economic activity growth remains slow. Confidence indicators for the industry and services sectors point to further weak GDP growth in 2019 Q4. Growth is supported by consumption, which continues to benefit from high consumer confidence and low unemployment. At the same time, it was observed that in December the European Central Bank had again revised down its forecasts of GDP growth for 2020.

In the United States, economic conditions are still fairly robust when compared to other economies, although activity in the US industry also remains weak, and GDP growth probably slowed down in 2019 Q4. In China, economic activity growth is slower than in previous years, with data for November 2019 indicating GDP growth stabilisation in 2019 Q4.

Oil prices have risen recently. The increase in oil prices was initially driven by the improvement in the sentiment concerning trade relations between the largest global economies, and subsequently by a sharp rise in geopolitical tensions in the Middle East. At the same time, some Council members indicated that the supply of oil from the United States was a factor alleviating the upward pressure on global prices of this commodity, which curbed the impact of negative supply shocks in the oil market. Furthermore, it was observed that despite higher oil prices, inflation in the external environment of the Polish economy was moderate, and in the euro area it was low.

The European Central Bank is keeping the deposit rate below zero, while conducting asset purchases and signalling the maintenance of loose monetary policy in the coming quarters. The US Federal Reserve, after the interest rate cuts of 2019, is keeping the rates unchanged.

Proceeding to discuss the information from the Polish economy, the Council started by assessing the economic situation in Poland in 2019. It was pointed out that GDP growth in 2019 had probably exceeded 4%, unemployment had dropped to a record-low level and confidence indicators had been high. At the same time, it was emphasised that the zloty exchange rate had been stable, the current account close to zero and lending growth slightly below the nominal GDP growth. Moreover, public debt in relation to GDP had probably decreased. Attention was also drawn to the fact that despite higher CPI at the end of the year, the average annual inflation had stood at 2.3%. Council members underlined that the above indicators confirmed that economic growth was robust and the economy remained balanced both internally and externally.

When analysing recent months' data more closely, it was highlighted that economic conditions in Poland remained good despite gradually slowing economic growth. GDP growth is supported by stable consumption growth, fuelled by favourable labour market conditions, very strong consumer confidence and disbursement of social benefits. At the same time, the Council members observed that consumer confidence indicators had declined somewhat in the recent period and signs of weakening labour demand had become apparent. In this context, some Council members pointed to slower wage growth in enterprises in recent months, although they also noted that raising the minimum wage at the beginning of 2020 would support wage growth. It was also underlined that incoming information signalled further, albeit slower than in previous quarters, growth in investment and exports. In this context, certain Council members highlighted the recent strengthening of the zloty exchange rate, which, along with weaker export growth, might negatively affect the financial performance of exporters.

When referring to inflation developments, it was observed that according to the GUS flash estimate, the CPI stood at 3.4% y/y in December 2019. Available information showed that the higher December inflation was driven by a rise in the prices of food and fuels. The majority of the Council members assessed that core inflation might have increased as well, which would have been related to higher prices of some services. Certain Council members indicated that inflation in December had risen more than expected. These Council members believed that apart from the likely impact of temporary factors, the increase in inflation might have been driven by a gradual weakening of structural factors which had previously constrained consumer price growth, especially that of goods. In this context, these Council members pointed to a slowdown in the expansion of the discount chains.

The majority of the Council members argued that the higher-than-forecast preliminary CPI reading for December did not affect the anticipated inflation path over the monetary policy horizon. In their assessment, inflation would rise temporarily in 2020 Q1, to subsequently start declining and approximate the inflation target in 2021. It was emphasised that inflation in the next few years would be dampened by the expected slowing of economic growth in Poland. Those Council members underlined that such a scenario was also suggested by medium-term expectations of financial analysts. The majority of the Council members also highlighted the fact that the temporary rise in inflation anticipated for 2020 Q1 would result mainly from factors beyond the scope of domestic monetary policy, including regulatory factors and supply shocks. Factors boosting inflation would include higher electricity prices (related to, among others, the climate policy) and more expensive fuels (associated with higher global oil prices). Moreover, the anticipated rises in waste disposal charges and the excise taxes on alcohol and cigarettes may temporarily heighten inflation as well. The expansion of the ASF epidemic, in turn, along with other supply shocks, may translate into higher food prices. Those Council members observed that the above factors, apart from leading to a temporary rise in price growth, would also have a negative impact

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

on real incomes and the sentiment of businesses and households, thus putting downward pressure on demand growth, which would in the medium term hamper the growth in the prices of the remaining goods and services. Certain Council members drew attention to the persistently slow producer price growth, and the recent appreciation of the zloty, as factors weakening price pressure.

At the same time, certain Council members argued that the expected acceleration of consumer price growth in 2020 might prove stronger than previously estimated. They indicated that this may result in particular from possible further oil price growth and a stronger pass-through of both rising wages and demand on prices, especially amid the rise of the minimum wage. At this point, these Council members also drew attention to an increase in households' inflation expectations.

The majority of the Council members stressed that, faced with uncertainty about the global economic outlook, a considerable number of central banks were currently conducting loose monetary policies, which was a significant factor supporting economic conditions in many countries. This means that the interest rates of a number of central banks – including in particular the ECB – are negative in real terms and will most likely remain in negative territory for a long time. At the same time, these Council members pointed out that although the NBP reference rate in Poland was negative in real terms as well, the real interest rates on household and corporate loans were positive, and the total credit growth in the economy remained lower than nominal GDP growth, with corporate lending growth continuing to be weak.

However, certain Council members underlined that the growth of both broad money (M3) and household lending was currently higher than or close to nominal GDP growth. Referring to corporate investment loans, these Council members judged that they were characterised by low price elasticity, which meant that any possible increase in interest rates on these loans would not have a strong impact on the investment outlays of companies. Moreover, it was pointed out that inflation increase coupled with no NBP interest rate rises, caused the NBP reference rate to decline in real terms.

Taking into account the current information and forecasts, the majority of the Council members decided that interest rates should remain unchanged. In their opinion, the outlook for the domestic economy remained favourable, yet GDP growth would most likely be lower than in previous years. At the same time, the Council assessed that uncertainty as to the scale and duration of the economic slowdown abroad and its impact on domestic economic activity persisted. Moreover, the majority of the Council members judged that the factors that would most likely boost CPI inflation in the coming months were mainly of a supply-side and regulatory nature. Therefore they would have only a temporary impact on inflation, while at the same time, they would put a drag on economic activity. As a result, along with the expected slowdown in economic growth, inflation would stay close to the target over the monetary policy transmission horizon. In the opinion of the majority of the Council members, the current level of interest rates would hence be conducive to keeping the Polish economy on a sustainable growth path and maintaining macroeconomic stability, and would at the same time allow meeting the inflation target in the medium term.

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

The majority of the Council members also expressed an opinion that, taking into account current information, interest rates were likely to remain stable in the coming quarters. These Council members pointed out that their assessment was supported by current forecasts indicating that inflation would remain in line with the NBP inflation target over the monetary policy horizon amid the forecast gradual slowing in GDP growth. In the opinion of these Council members, considering lags in the monetary policy transmission mechanism, any interest rate increase under the current conditions would not prevent a temporary rise in inflation in 2020, while at the same time, could deepen the economic slowdown.

However, certain Council members emphasised that there were factors that might keep inflation higher than indicated by the current forecasts. They noted that the risk of a further rise in inflation and inflation expectations, combined with the small – in their opinion – scale of the expected economic slowdown in Poland, could jeopardise meeting the inflation target in the medium term, which justified – in their view – increasing interest rates at the current meeting. According to these Council members, such a move would curb the rise in real estate prices, contributing to increasing their affordability.

In turn, certain Council members pointed to signs indicating that global economic conditions would continue to be weak. In the opinion of these Council members, this could have a negative impact also on economic growth in Poland in the quarters to come. At the same time, the risk of inflation deviating from the NBP target over the monetary policy transmission horizon was limited. As a result, a view was expressed that it was justified to lower interest rates at the current meeting and that – in the longer run – it might be justified to consider further cuts in interest rates or the introduction of unconventional monetary policy instruments.

At the meeting, a motion to increase the NBP interest rates by 0.15 percentage points was submitted. The motion was rejected. At the meeting, a motion to cut the NBP interest rates by 0.25 percentage points was submitted. The motion was rejected. 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%.

Publication date: 23 January 2020

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