Minutes of the Monetary Policy Council decision-making meeting held on 6 February 2019

During the meeting, the Council noted that incoming data pointed to weaker economic conditions in some of the largest economies. At the same time, uncertainty had increased about the outlook for global activity in the coming quarters. It was noted that GDP growth in the euro area in 2019 Q4 remained low, and economic prospects for the region had slightly deteriorated. The recent weakening was particularly marked in the Germany, Poland's most important trading partner. Attention was also drawn to the continued gradual decline in activity growth in China. With regard to the United States, it was indicated that despite slower GDP growth in 2018 Q4, economic conditions in that economy remained strong.

It was pointed out that, following a sharp decline in the final quarter of 2018, oil prices had rebounded slightly since the beginning of the year. The rise in oil prices was supported by restrictions on oil production in OPEC countries, along with the continued sanctions on oil imports from Iran and Venezuela. Meanwhile, the scale of the rise in oil prices was limited by both lower current demand and the deteriorating outlook for demand for oil related to weaker global economic conditions and tensions between the United States and China.

When analysing inflation developments abroad, it was indicated that the decline in oil prices on their 2018 Q3 levels was having a downward effect on inflation in many countries. At the same time, core inflation in the environment of the Polish economy, including the euro area, was currently low.

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 for 4,5 years. At the same time, the ECB was reinvesting funds from the maturing securities. It was pointed out that amid weaker economic conditions in the euro area and higher uncertainty about their prospects, the ECB had softened its rhetoric at its last meeting, making further decisions contingent on incoming data. Some Council members judged that the likelihood of interest rate increases in the euro area had diminished substantially. It was indicated that after raising interest rates in December 2018, the Federal Reserve of the United States was keeping them unchanged and, at the last meeting, had eased its stance regarding monetary policy prospects as well. Some Council members expressed the opinion that this economy also might not see further interest rate increases, and it was even possible that the process of balance sheet reduction by the Federal Reserve could be halted.

Discussing the developments in Poland’s real economy, it was underlined that preliminary data on 2018 GDP confirmed very good performance of the Polish economy last year. The consistently high private consumption growth was highlighted, resulting in substantial increase in the level of consumption over the past two years. It was pointed

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out that robust economic growth last year did not entail the build-up of macroeconomic imbalances. It was noted that 2018 had seen a continuous surplus in foreign trade, with growth in lending to the non-financial sector, though higher than in 2017, remaining moderate, and annual inflation standing at 1.6%.

With regard to economic growth in 2018 Q4, it was pointed out that preliminary annual national accounts data suggested further relatively high GDP growth in that period, although slightly weaker than in the previous quarters. It was noted that activity growth in 2018 Q4 had continued to be driven by consumption, which had been rising further – albeit at a slightly slower pace than in previous quarters – fuelled by increasing employment and wages as well as very strong consumer sentiment. It was emphasised that in 2018 Q4 investment growth had also continued, although it was being hampered by the likely decline in investment outlays by local government units. It was underlined that national accounts data pointed to a positive contribution of net exports to GDP growth in 2018 Q4, despite weaker economic conditions abroad.

While discussing the outlook for economic growth, it was stressed that the recently received data pointed to a probable slowdown in 2019 Q1. The Council reiterated its assessment that – despite some weakening of the outlook for growth in the immediate environment of the Polish economy – GDP growth in Poland in the coming quarters would probably decrease only gradually, and domestic economic conditions would remain relatively favourable, although uncertainty about future GDP growth had increased in the recent period.

When analysing labour market performance, attention was drawn to a gradual decline in employment growth. In the assessment of some Council members, this could have reflected not only supply constraints, but also weaker growth in demand for labour. It was pointed out that in December wage growth in the enterprise sector had slowed, which – in the opinion of some Council members – might suggest that temporary factors had driven its prior rise. These Council members also assessed that despite the mounting wage pressure declared by enterprises, wage growth in the corporate sector should remain stable in the coming quarters, owing to firms' probably lower propensity to raise wages amid weaker external demand. The opinion was expressed that despite that, higher wage growth in the entire economy could not be ruled out, particularly if wage growth in the public sector picked up. Some Council members emphasised at that point that a potential increase in wage growth across the economy, given the expected slowdown in GDP growth, might have a stabilising effect on economic conditions.

Discussing the long-term determinants of the developments in the Polish labour market, some Council members highlighted the persistently stronger growth of labour productivity than that of real median and mode wage in the past. Certain Council members judged that such a discrepancy had resulted from the increasing participation of Polish firms in global value chains and technological progress. Other Council members observed that labour productivity growth was currently slower than real wage growth,

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and the occurrence of the reverse relationship in the past did not have to affect firms' current pricing policies.

Turning to inflation developments in Poland, it was pointed out that – notwithstanding relatively high economic growth and wages rising faster than in previous years – annual consumer price growth had declined in recent months and remained moderate. It was noted that lower global oil prices than in 2018 Q3 were dragging on price growth, although, as certain Council members believed, their impact on fuel prices was constrained by the structure of the fuel market in Poland. It was also indicated that inflation net of food and energy prices remained low. Certain Council members were of the opinion that the persistently low core inflation in the environment of higher wage growth than in previous years resulted from the likely slower growth of the median wage, which might have a significant impact on inflation developments.

While discussing the near-term outlook for inflation, it was underlined that according to current forecasts, annual price growth would pick up in the coming months, yet the scale of this increase would be small and markedly lower than expected in the November projection. It was noted that in line with these forecasts, average inflation this year would be lower than 2.5%. Certain Council members remarked that in the coming months, rising food prices would probably have a boosting effect on inflation, with the scale of the increase remaining an uncertainty factor for price developments. Some Council members were of the opinion that price growth might be weaker than currently forecast due to – as they expected – the absence of a marked pick-up in core inflation amid weakening economic growth. Certain Council members, however, expressed the view that rising production costs might contribute to higher inflation as the relatively low, in their opinion, profitability in some branches could incline firms to raise prices. Other Council members, in turn, pointed out that profitability in the corporate sector remained close to that observed in previous years, and the propensity of firms to raise prices would be mitigated by strong competition.

With reference to the anticipated path of price developments in the medium term, it was indicated that in the monetary policy transmission horizon inflation would remain close to the target. It was pointed out that the expected slowdown in GDP growth in the coming years would have a dampening effect on inflation. It was also indicated that after a temporary rise in December, household inflation expectations had declined again. Some Council members assessed that the increase in inflation expectations of enterprises at the end of 2018 might also be temporary. Yet other Council members expressed the opinion that possible persistence of inflation expectations of enterprises at a heightened level could be a factor contributing to higher inflation in the years to come. They also pointed to the risk of energy price growth in the future. Certain Council members assessed that in the coming years the impact of factors that had so far curbed price growth, such as the increase in the number of discount stores and change in the structure of consumption, might weaken.

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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 would increase in the coming months, however – due to the lower oil prices than in 2018 Q3 and the freeze on electricity prices – the scale of this increase would 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 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, in particular, by a marked decline in the risk of inflation permanently exceeding the target, along with a rise in uncertainty about the scale and duration of the slowdown in the global economy, as well as its feed-through to domestic economic conditions.

Certain Council members emphasised that significant uncertainty remained 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 which would boost inflation to a level that would jeopardise meeting the inflation target, it might be justified to consider an increase in the NBP interest rates in the coming quarters. These Council members pointed out that the likelihood of such a scenario had declined significantly 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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