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

During the meeting, the Council noted that incoming data pointed to weaker economic conditions in some of the largest economies, and assessed that uncertainty about the outlook for global activity in the coming quarters had increased. The majority of the Council members indicated that GDP growth in the euro area in 2018 Q4 had remained low, and forecasts pointed to its further deterioration in 2019. They also highlighted the markedly, in their view, weaker economic growth, and the drop in business climate indicators in the German economy, Poland's most important trading partner. Certain Council members voiced the opinion that the weakening of the economic conditions observed in the immediate environment of the Polish economy was not significant and probably of temporary nature, while the drop in economic climate indicators resulted partly from political uncertainty. With reference to the economic situation in the United States, it was observed that it remained strong, although GDP growth was expected to decelerate somewhat during the year. Attention was also drawn to the continued gradual decline in activity growth in China.

It was noted that although oil prices had risen since the beginning of the year, they were still lower than in 2018 Q3. The increase in oil prices was, to a large extent, driven by lower oil production in Iran and Venezuela and the announcement of a further reduction in oil supply from Saudi Arabia. Meanwhile, the scale of the rise in oil prices was limited by the deteriorating outlook for demand for oil related to weaker global economic conditions and tensions between the United States and China.

When analysing price growth abroad, it was indicated that lower than in 2018 Q3 oil prices were having a downward effect on inflation in many countries. It was noted that currently core inflation abroad, including the euro area, was low.

Referring to monetary policy abroad, it was observed that the ECB had been keeping interest rates close to zero, including the deposit rate below zero for 4.5 years. At the same time, the ECB is reinvesting funds from the maturing securities. Some Council members assessed that in light of the deteriorating economic outlook in the euro area, the ECB programme of liquidity provision to the banking sector might be expanded, while the indicated period of keeping ECB interest rates at the current level might be extended. It was pointed out that the US Federal Reserve was keeping interest rates unchanged while signalling that its further decisions would depended on the incoming data. Some Council members expressed the opinion that the US economy also might not see further interest rate increases, and that already this year the Federal Reserve might halt the process of balance sheet reduction.

Discussing the developments in Poland's real economy, it was underlined that GDP growth in 2018 Q4 had remained relatively robust. It was noted that activity growth had continued to be driven by consumption, which had been rising further – albeit at a slightly

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slower pace than in previous quarters – fuelled by increasing employment and wages as well as very strong consumer sentiment. It was emphasised that this was accompanied by growing investment.

While discussing the outlook for economic growth, it was stressed that the recently received data pointed to a likely lower activity growth in 2019 Q1 compared to previous quarters. The results of the March NBP projection indicated that economic growth may gradually decline also in the subsequent quarters, although the economic conditions this year will remain favourable. It was emphasised that weaker economic conditions in Poland's immediate environment would have a negative impact on domestic GDP growth. At the same time, according to the March projection, the scale of the economic slowdown in Poland would be smaller than previously forecast due to the expected positive impact of the fiscal measures announced by the government on domestic demand. Certain Council members expressed the opinion that GDP growth in 2019 might be higher than projected. These members emphasised that given the announced fiscal stimulus and the stabilization of electricity prices, robust growth in consumer demand would probably continue. Moreover, the adverse impact of the weaker economic conditions abroad on the domestic activity would probably be mitigated by Polish firms' high capability to adapt to the changing market environment. The Council members judged that the outlook for the economic growth would continue to be subject to significant uncertainty, with developments in the global economy constituting the key risk factor for the expected GDP growth path.

When analysing labour market performance, it was noted that, while according to the LFS data, the increase in the number of working persons in the economy had flattened in 2018 Q4, corporate sector data for January 2019 pointed to further employment growth in the corporate sector. At the same time, wage growth in the economy in 2018 Q4, and in the corporate sector in January 2019 remained close to 7%. It was indicated that according to the March projection, a similar rate of wage growth was to be expected also in the subsequent quarters. Certain Council members judged that wage growth might be higher due to the possible further increase in wage pressure in the public sector and a decrease in labour supply. Some Council members emphasised at that point that a potential rise in wage growth in the economy would support consumer demand and – given the expected economic activity slowdown – would have a stabilising effect on economic conditions. At the same time, other Council members argued that in the light of the anticipated economic slowdown and after two years of a robust wage growth, the likelihood of a further acceleration in wage growth was relatively low.

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 was currently running low. It was remarked that inflation net of food and energy prices also continued to be low, despite a likely pick-up in January.

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While discussing the outlook for inflation, it was emphasised that in line with the March projection, price growth in 2019 would continue at a pace close to that of 2018 and thus was expected to be markedly lower than envisaged in the November projection. The downward revision of the expected inflation resulted from the freeze on electricity prices as well as lower levels of global oil prices than in 2018 Q3. The likely remaining of core inflation at relatively low levels, despite its expected gradual increase, would be another factor curbing price growth. It was pointed out that according to the March projection, CPI inflation in subsequent years would exceed this year's level while remaining moderate and close to 2.5%. Some Council members were of the opinion that price growth in the years to come might be higher than currently forecast. They noted that in the medium term price growth might be boosted by a range of factors, including stronger effects of the announced fiscal measures than suggested by the projection – especially if high capacity utilisation should continue and energy price growth and wage growth should accelerate. Certain Council members assessed that the path of global oil prices posed another risk factor for inflation. However, other Council members argued that the expected economic slowdown, which reduced the likelihood of higher wage momentum in the economy, would hamper price growth. These members also emphasised that under weak economic conditions, firms' propensity to raise prices would probably be limited, especially amid the continuously favourable – although varying across industries – average profitability of their operations.

The Council decided that interest rates should remain unchanged. In the Council's assessment, the outlook for economic conditions in Poland remains favourable. It was pointed out that in line with the results of the March NBP projection, a gradual slowing in GDP growth was expected in the quarters ahead. At the same time, inflation will continue at a moderate level and will remain close to the inflation target in the monetary policy transmission horizon. 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 and financial system 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 results of the March NBP projection indicating a limited risk of a lasting deviation of price growth from the inflation target. They emphasised that another argument in favour of keeping interest rates stable was the heightened uncertainty about the scale and duration of the slowdown in the global economy, along with its feeding through to domestic economic conditions.

Certain Council members stressed that there were factors which, in the medium term, could push inflation to higher levels than assumed in the projection. They remarked that should the announced fiscal measures or a potential pick-up in wage growth result in a marked rise in inflation that would jeopardise meeting the inflation target in the medium

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term, it might be justified to consider an increase in the NBP interest rates in the coming quarters.

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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