Minutes of the Monetary Policy Council decision-making meeting held on 11 September 2019

During the meeting, the Council pointed out that activity growth in the global economy remained relatively soft, and the global economic outlook had deteriorated. The volume of world trade was declining, which, combined with the announcements of further measures to increase trade barriers was reflected in the persistently weak performance of the industrial sector. At the same time, although business conditions in the service sector remained relatively strong, incoming data pointed to their possible deterioration in the months to come. It was underlined that as a result, uncertainty about the global economic outlook for the coming quarters had risen in recent months. Some Council members observed that besides changes in the trade policy of key economies, it was probably the tendency of slowdown in economic growth after years of expansion that negatively affected activity in many countries.

The Council members observed that GDP growth in the euro area in 2019 Q2 continued to be sluggish. Attention was drawn to the fact that although the performance of the service sector continued to be strong, activity in the industrial sector was decreasing. It was pointed out that euro area growth continued to be mainly driven by consumer demand, supported by relatively strong consumer sentiment and the improvement in the labour market conditions compared to previous years. However, industrial output, particularly sensitive to conditions in international trade, was on the decline. Some Council members judged that in the quarters to come, the persistent downturn in industry might start negatively weighing on household sentiment and translate into weaker activity in services. It was stressed that GDP had shrunk in Germany in 2019 Q2 in quarter-on-quarter terms, and forecasts pointed to a possible further GDP fall in 2019 Q3. Certain Council members observed at this point that the German Finance Minister had signalled its readiness to apply a fiscal stimulus should the German economy face a crisis.

Referring to economic conditions in the United States, it was indicated that while GDP growth in 2019 Q2 was higher there than in the euro area, it had slowed down on previous quarters. Some Council members observed at that point that business climate indicators in this economy signalled a possible further weakening of activity in the subsequent quarters, which gave rise to downward revisions of 2019 GDP forecasts for the United States. Certain Council members pointed out that many indicators already suggested a growing risk of recession in the United States in the coming quarters. They underlined that a potential recession in the United States would have a highly adverse

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effect on the global economic outlook, especially the outlook for euro area, Germany, and, hence, also Poland.

With regard to the economic situation in the external environment of the Polish economy, it was noted that in China GDP growth had also decelerated in 2019 Q2, hitting the lowest point since 1992.

While discussing the situation in the global commodity markets, it was observed that in recent months global oil prices had declined. Certain Council members pointed out that prices had declined despite mounting geopolitical tensions. It was underlined that the development of crude oil extraction and transport capacity in the United States had a stabilising effect on the market. Some Council members pointed out that the fall in oil prices was the result of a slowdown in global economic growth and the persistence of negative signals regarding the global economic outlook. It was emphasised that lower oil prices were also reflected in lower inflation in the largest advanced economies and a strong decline in inflation expectations in these countries.

Referring to monetary policy abroad, attention was drawn to the fact that many central banks had started monetary policy easing. It was underlined that the European Central Bank was keeping its interest rates close to zero, including the deposit rate below zero, and was reinvesting maturing securities bought under the asset purchase programme, while signalling the possibility of monetary policy easing in the near future. It was also noted that the Federal Reserve had cut interest rates in July 2019 and in August had stopped reducing its balance sheet. Certain Council members judged that, despite the cautious rhetoric of the Fed regarding further interest rate cuts, it should be expected that the Federal Reserve would continue its monetary policy easing in the coming months. It was noted that fears about the future economic conditions were having a negative impact on financial market sentiment, leading to growing uncertainty and volatility in the prices of financial instruments, and causing a sharp fall in the yields on debt securities. As a result, at present a significant portion of government bonds in advanced countries have negative yields.

When discussing developments in Poland's real economy, it was observed that, despite flagging growth abroad, domestic economic conditions remained favourable, and GDP growth in 2019 Q2 amounted to 4.5% y/y. Rising consumption, fuelled by increasing employment and wages, very strong consumer sentiment and disbursement of benefits, continued to boost economic activity growth. It was noted that investment also increased in 2019 Q2, despite some slowdown in growth. At the same time, the growth rate of exports and imports declined.

While analysing the outlook for economic growth, the Council members judged that GDP growth should continue at a relatively high pace in the coming years, although probably somewhat lower than forecast in the July projection. It was noted that economic growth would still be supported by expanding consumer demand. In this context, certain Council members drew attention to the positive impact of the fiscal stimulus on GDP growth. However, some Council members observed that business

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climate indicators pointed to the possibility of a slowdown in the industrial sector activity over the coming months. These Council members noted that amid a slowdown abroad and weaker inflow of funds from the European Union, there could be softer growth in investment. It was noted that the key source of risk for domestic economic activity was the scale and persistence of the downturn in the euro area, including in Germany.

When analysing labour market performance, it was indicated that employment growth in the enterprise sector had decreased and that there was no further increase in wage growth. Some Council members judged that this might signal a stabilisation of labour demand. According to these Council members, wage growth in the economy as a whole was still not a factor which could lead to excessive price growth, since due to a significant rise in labour productivity, unit labour cost growth remained low.

Turning to inflation developments in Poland, it was noted that consumer price growth remained moderate. It was pointed out that in August 2019 – according to the GUS flash estimate – inflation stood at 2.8% y/y. Attention was drawn to the fact that price growth was boosted mainly by the significant increase in food prices, partly resulting from the ASF epidemic in China and the drought in Poland, thus due to factors beyond the control of domestic monetary policy. In turn, lower energy prices, including fuel prices, than a year ago had a curbing effect on price growth. At the same time, core inflation remained at a moderate level.

Some Council members emphasised that inflation was in line with the NBP inflation target, while core inflation – despite accelerating – remained significantly lower than CPI inflation. These Council members pointed out that prices of services were rising faster than in previous years, but that this was partly due to the high growth in administered prices, and partly reflected real convergence processes. Other Council members noted that the relatively high growth in the prices of services was also the result of supply barriers, amid relatively strong demand growth. In the opinion of these Council members, there was a similar situation in the construction industry, where many companies were reporting high capacity utilisation. At the same time, it was underlined that PPI inflation had declined in recent months and was currently very low.

While analysing the outlook for inflation, some Council members emphasised that, according to the latest NBP forecasts, price growth would probably rise only slightly by the end of 2019, while in 2020 Q1 inflation might temporarily rise close to the upper limit of deviations from the inflation target. These Council members underlined that inflation growth at the beginning of 2020 would largely result from the statistical base effect and the assumed increase in energy prices. It was underlined that – according to current forecasts – in the successive months of 2020 inflation would, however, decline, falling to levels close to 2.5% in the middle of the year. However, certain Council members drew attention to the need to monitor the changes in inflation expectations.

Certain Council members pointed out that the NBP reference rate deflated by both CPI and inflation net of food and energy prices was currently negative. These Council members argued that very low interest rates reduced the propensity of households to save and encouraged them to search for more profitable, albeit riskier forms of investing their savings. In the opinion of these Council members, low interest rates have a negative impact on the performance of the banking sector, which strengthens the tendency to concentrate banking activity in market segments yielding high margins. In this context, attention was drawn, on the one hand, to the relatively high growth in consumer and housing loans, and on the other hand, to low growth in corporate loans. Yet other Council members stressed that the real interest rates on loans in Poland are significantly positive.

While discussing monetary policy, the majority of the Council members decided that interest rates should remain unchanged. In the opinion of these Council members, the outlook for economic conditions in Poland remains favourable, and GDP growth will continue at a relatively high rate in the coming years, although it will gradually decline. However, uncertainty about the scale and persistence of the slowdown abroad and its impact on domestic economic activity had increased. At the same time, after a temporary rise in 2020 Q1, inflation will remain close to the target in the monetary policy transmission horizon. Thus, the majority of the Council members 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 their assessment was supported by current forecasts indicating a limited risk of a lasting deviation of price growth from the inflation target, amid the forecast gradual slowdown in economic growth.

Certain Council members pointed to factors that might boost inflation higher than indicated by the current forecasts. They noted that should there be a significant rise in inflation that would jeopardise meeting the inflation target in the medium term, it might be justified to consider an increase in the NBP interest rates in the coming quarters. In the opinion of these Council members, uncertainty about the economic outlook and future price growth had risen.

Certain Council members noted that in recent months there were more signs of a deterioration in the global economic conditions, including a significant increase in the risk of recession in the US economy. In the opinion of these Council members, these factors could also have a negative impact on economic growth in Poland. At the same time, the risk of a lasting deviation of inflation from the NBP target was limited. As a result, a view was expressed that it was justified to lower interest rates at the current meeting. The view was also upheld that in the longer run it might be justified to consider a further decrease in interest rates or the introduction of unconventional monetary policy instruments.

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

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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%.

Publication date: 26 September 2019

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