Minutes of the Monetary Policy Council decision-making meeting held on 3 July 2019

During the meeting, the Council pointed out that activity growth in the global economy remained relatively soft. Industrial confidence indicators continued to be weak and the volume of world trade was declining. 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. This was accompanied by heightened uncertainty about the global economic outlook for the coming quarters, resulting in part from further possible changes in the trade policy of the largest economies.

The Council members observed that activity growth in the euro area continued to be sluggish. Attention was drawn to subdued business conditions in the euro area industry, with an emphasis on the decline in industrial output in Germany in the recent period. This was accompanied by the consistently strong performance of the service sector. However, some Council members judged that the persistent downturn in industry might gradually start weighing on household sentiment, thus posing a downside risk to activity in services. It was stressed that according to available forecasts, GDP growth in the euro area would be markedly slower in 2019 than a year ago. Some Council members perceived a substantial risk that growth in the area might be lower than the forecasts, particularly if tariffs on the exports of some European products to the United States would be imposed.

Referring to economic conditions in the United States, it was pointed out that they remained good. At the same time, recent readings of business climate indicators in this economy signalled a possible weakening of activity in the subsequent quarters, and available forecasts pointed to a gradual decline in GDP growth. In turn, when analysing the economic situation in China, it was noted that incoming data were indicative of weaker economic conditions in 2019 Q2.

While discussing the situation in the global commodity markets, it was observed that in the recent period heightened volatility of oil prices had persisted, yet those prices remained lower than a year ago. Parallel to that, global prices of some food products had risen. It was emphasised that in many countries inflation remained at moderate levels. It was highlighted that inflation in the euro area had declined recently, and core inflation was running below 1%.

Referring to monetary policy abroad, attention was drawn to a marked shift in the rhetoric of the main central banks in recent months. It was observed that the Federal Reserve, while keeping interest rates unchanged so far, was gradually limiting the pace of its balance sheet reduction and was signalling the possibility of a monetary policy easing in the subsequent quarters. 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. At the same time, the ECB had extended the indicated period of keeping interest rates unchanged, while signalling the possibility of

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further monetary policy easing. Some Council members additionally observed that in Central and Eastern Europe – despite inflation running above the targets in some of the economies – central banks had not signalled a tightening of monetary policy.

When discussing developments in Poland's real economy, it was observed that economic conditions remained favourable. Rising consumption, fuelled by increasing employment and wages, very strong consumer sentiment and disbursement of benefits, continued to boost economic activity growth. Incoming data also point to a further substantial rise in investment and exports.

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. Economic growth would still be supported by expanding consumer demand growth. Some Council members assessed that business climate indicators signalled the possibility of weaker conditions in the industrial sector in subsequent months. These Council members also expressed the opinion that export growth might slow down as well, should household sentiment deteriorate and consumer demand in the immediate environment of the Polish economy weaken. These Council members additionally observed that in the event of a more pronounced slowdown in the euro area, GDP growth in Poland might be slower than forecast in the July NBP projection. However, other Council members argued that economic growth might run above the level expected in the July projection. They assessed that in the quarters to come the impact of the slowdown abroad on the Polish economy might be – as it had been so far – limited and weaker than expected.

When analysing labour market performance, it was indicated that employment growth in the enterprise sector had decreased in May. Some Council members judged that this might signal a stabilisation of labour demand. At the same time, despite somewhat faster growth in May, wages in the industrial sector rose at a relatively stable pace. The Council members emphasised that the change in regulations on the employment of non-EU employees in Germany was an uncertainty factor to the future labour market situation in Poland. It was pointed out that it might cause an outflow of some Ukrainian workers from the Polish market, yet the scale of this phenomenon was difficult to estimate. Certain Council members assessed that the reduction in the number of Ukrainian employees active in the Polish labour market, coupled with the expected by those Council members acceleration of wage growth in the government sector might contribute to higher wage growth across the economy, and consequently to higher price growth. In contrast, other Council members expressed the opinion that, given the expected gradual decline in GDP growth in Poland, the risk of accelerating wage growth and inflation was small.

Turning to inflation developments in Poland, it was noted that consumer price growth had risen in recent months, yet remained at a moderate level. The rise in inflation was partially caused by higher price growth of fuel and food. This was accompanied by a rise in core inflation. Some Council members emphasised that core inflation had increased moderately and remained significantly lower than CPI inflation. Certain Council members observed that the rise in core inflation – along with higher growth in prices of goods

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sensitive to domestic economic conditions and prices of services – was an indication of the build-up of demand pressure in the economy.

While analysing the outlook for inflation, some Council members emphasised that, according to the NBP projection, price growth over almost the whole projection horizon would remain close to 2.5%, except for the beginning of 2020, when – due to the impact of temporary factors beyond the control of domestic monetary policy – it might be higher, although still below the upper limit of deviations from the target. These Council members pointed out that the above developments would be accompanied by only a gradual rise in core inflation. Some Council members expressed the opinion that in the case of a more pronounced slowdown in GDP growth in the euro area – and consequently, in Poland – price growth might be lower than the forecast. However, certain Council members pointed out that the inflation path in the NBP July projection was higher than in the NBP March projection, with price growth running in the upper band for deviations from the target during most of the forecast period. They expressed the opinion that inflation growth in the coming years might be fuelled by a further rise in the growth of prices of services, expected by these Council members, as well as stronger pass-through of rising costs of enterprises to prices of final products. These Council members judged that the expected higher inflation at the beginning of 2020 might become persistent and that price growth in the whole projection horizon might be higher than the forecast.

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 observed that in view of the forecast rise in inflation, the stabilisation of the NBP interest rates would lead to a further fall in real interest rates, which would stimulate lending. However, other Council members noted that real interest rates in Poland were among the highest in Europe and that lending growth was moderate and slower than growth in deposits.

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. At the same time, inflation will remain moderate and will stay close to the target in the monetary policy transmission horizon. Thus, the majority of 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. They emphasised that another argument in favour of keeping interest rates stable was the continued heightened uncertainty about the scale and duration of the slowdown in the global economy, along with its feeding through into domestic economic conditions.

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Some Council members stressed that in the event of significant price growth 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.

However, certain Council members judged that the economic growth and inflation would most likely be higher than indicated by the current projection. In their assessment, as a result, inflation might exceed the target in the coming years. Moreover, along with the expected rise in price growth, the level of real interest rates would decline, which could – in the opinion of these Council members – excessively stimulate lending and create the problem of over-indebtedness of households. In the view of these Council members, in order to maintain price stability and limit household lending growth, it would be advisable to increase NBP interest rates at the current meeting of the Council.

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.

At the meeting a motion to raise 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%, the rediscount rate at 1.75%.

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