Minutes of the Monetary Policy Council decision-making meeting held on 3 October 2018

During the meeting, the Council noted that global economic conditions remain favourable. It was pointed out that activity in the euro area continued to be strong, despite slightly slower GDP growth than in 2017. It was assessed that the conditions for further growth of consumption in the euro area remain favourable, which should support a merely gradual slowdown in GDP growth in this region in the coming quarters. However, some Council members underlined that in the recent period growth forecasts for the euro area had been lowered, which – should it continue – could indicate the risk of a stronger slowdown in Poland's main trading partner. It was emphasised that a certain slowdown in international trade, visible in particular in weaker growth of Germany's foreign sales, was having a negative impact on GDP growth in the euro area. Certain Council members pointed out that the periodically intensifying tensions related to heavily indebted Italian economy posed an additional risk for economic conditions in Poland's immediate environment. At the same time, it was indicated that in the United States economic growth continued at a high level, due to still very good labour market conditions, high asset prices, and fiscal stimulus.

When analysing changes in energy commodity prices, it was noted that they were at levels markedly higher than the year before. In the recent period, increases in the prices of oil, coal and gas had been recorded. It was pointed out that geopolitical factors continued to have a significant impact on oil prices. A further increase in these prices was supported by the expected decline in oil supply resulting from the imposition of sanctions on Iran and Venezuela, along with the lack of declaration to increase production in OPEC+ countries, as well as the growing demand for fuel as a result of the continued favourable global economic conditions. In addition, in the recent period oil prices were also affected by information about oil stocks and production in the US economy and expectations about the possible sale of oil from strategic stocks of the United States.

While discussing inflation developments in the global economy, it was pointed out that the significant increase in prices of energy commodities contributed to higher inflation in many countries. However, core inflation in the environment of the Polish economy, including the euro area, remained moderate, despite the persistence of good economic conditions there. Certain Council members assessed that inflation abroad in the coming quarters could be higher than indicated by the previous forecasts. Other Council members additionally emphasised that amid heightened tensions in global trade and the introduction of tariffs by the largest economies, the disinflationary impact of globalisation on prices might be weaker than it had been so far.

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

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rate below zero. At the same time, the ECB continued to purchase financial assets, although since October at a reduced scale, and reaffirmed its guidance to terminate the purchase programme by year-end. Some Council members judged that, should the expected economic slowdown in the euro area prove stronger than indicated by current forecasts, interest rates in this region might remain low for longer than currently signalled by the ECB. It was noted that in the United States, the Federal Reserve continued to gradually tighten monetary policy and in line with expectations had raised interest rates once again in September. Some Council members pointed out that while this could incline investors to withdraw capital from emerging market economies, the risk of a strong capital outflow from countries which enjoyed favourable economic conditions and lack of external imbalances, was limited. Certain Council members judged that the process of monetary policy tightening in the United States could be terminated earlier than currently expected.

Discussing the developments in Poland's real economy, it was emphasised that incoming data suggested that GDP growth in 2018 Q3 was still high, although somewhat lower than in the first half of 2018. Certain Council members indicated that some data on activity in the enterprise sector, including the PMI index and industrial output growth, had declined in the recent period. With reference to the outlook for economic growth, it was pointed out that according to available forecasts, GDP growth in the coming quarters would gradually decline in the wake of weakening economic growth in the environment of the Polish economy. It was stressed that GDP growth was still driven by rising consumption, fuelled by increasing employment and wages, disbursement of benefits and very strong consumer sentiment. It was highlighted that this was accompanied by growth in investment which was forecast to accelerate in 2018 Q3. It was noted that apart from public investment, fixed capital formation of private enterprises was also rising, as confirmed by data from large enterprises for 2018 Q2.

While analysing current developments in the labour market, it was pointed out that the annual growth of employment in the enterprise sector was still high, although it was gradually decelerating. At the same time, the unemployment rate remained at a low level. It was underlined that these developments were accompanied by higher than in the previous year – although not accelerating – wage growth. Some Council members judged that wage growth would probably remain at its current level also in the following quarters. In their opinion, this was indicated by a decline in the share of firms planning pay rises and the moderate public sector wage growth assumed in the draft budget law, as well as the continued inflow of foreign workers. However, other Council members pointed out that the inflow of foreign workers was diminishing, which – along with the likely mounting wage demands in the government sector – might contribute to a pickup in wage growth in the subsequent quarters.

Discussing inflation developments in Poland, it was observed that despite the relatively fast GDP growth, the annual consumer price growth remained moderate. According to the GUS flash estimate, in September inflation stood at 1.8% compared to

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2.0% in the preceding few months. At the same time, it was emphasised that core inflation was low, while growth in producer prices had declined somewhat. Certain Council members pointed out that in the recent period households' inflation expectations had remained stable, while expectations of enterprises had risen.

When discussing the outlook for price growth, it was indicated that in line with available forecasts, inflation in the first half of 2019 would be higher than currently observed. The Council members stressed that inflation would rise mainly due to higher energy prices driven by higher energy commodity prices, and also more expensive allowances for carbon dioxide emissions. In the opinion of certain Council members, the introduction of emission fees next year could also contribute to fuel price growth. An additional factor contributing to higher inflation would also be the expected higher annual growth of some food prices resulting from this year's drought. It was emphasised that the sources of higher inflation would thus include supply shocks, which at the same time would adversely affect the profitability of companies and the situation of households. In turn, core inflation was expected to rise only gradually and in the first half of 2019 should remain below the NBP inflation target.

Certain Council members pointed out that the growth of energy prices might increase inflation, not only in the short term, but also in the long term. In their opinion, the need to modernise the current energy infrastructure, related i.a. to efforts aimed at diversifying energy sources, might contribute to this. In the opinion of these Council members, although energy price rises for households would probably be low in the nearest future, for enterprises they might be significant and might increase their operating costs. Moreover, certain Council members assessed that energy price increases might raise inflation expectations in the economy. However, other Council members emphasised that the likelihood of a sharp increase in inflation due to an increase in energy costs was mitigated by the strong competition among enterprises, which might increase their willingness to reduce margins or other costs in order to maintain market shares, and also by the expected slowdown in GDP growth. Referring to inflation expectations, these Council members noted that no risk of their excessive growth could be seen in the long term.

The majority of the Council members judged that despite supply shocks, which could increase inflation in the first half of 2019, inflation would remain close to the target in the monetary policy transmission horizon. Some Council members underlined that in the coming years the slowdown in economic growth would curb inflation. However, certain Council members argued that the expected scale of slowdown in GDP growth was relatively small, thus it might limit inflationary pressure only to a small extent.

The Council members underlined that in the Polish economy there were currently no significant external or internal imbalances. It was pointed out that the current account balance remained close to zero, and lending growth to the non-financial sector remained moderate, i.e. lower than nominal GDP growth. At the same time, some Council members stressed that although the housing market was currently in an expansion

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phase, housing loans were not growing at an excessive rate. Moreover, in 2018 Q2 home sales were lower than in 2018 Q1, which could mean that home prices had reached the level limiting households' demand for housing.

While discussing NBP monetary policy, the Council decided that interest rates should remain unchanged. The Council judged that current information indicated a favourable outlook for economic activity growth in Poland, despite the expected slowdown in GDP growth in the subsequent quarters. At the same time, in the monetary policy transmission horizon inflation would remain close to the target. As a result, 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, the stabilisation of interest rates in the quarters to come would continue to help meet the inflation target, while supporting the maintenance of balanced economic growth, including a further recovery in investment. Moreover, these Council members pointed out that the need to take into account monetary conditions in the immediate environment of the Polish economy, as well as the heightened uncertainty about the outlook for the global economy, also spoke in favour of keeping the current level of interest rates in the coming quarters.

In the opinion of some Council members, should incoming data and forecasts suggest a further increase in wage growth and a more marked intensification of inflationary pressure than currently expected, 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 an 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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