Minutes of the Monetary Policy Council decision-making meeting held on 2 October 2019

During the meeting, the Council pointed out that activity growth in the world economy remained relatively soft, and the global economic outlook continued to deteriorate. It was observed that global activity growth was dragged down by the continued downturn in the industrial sector. It was emphasized that while conditions in the service sector remained relatively strong, incoming data pointed to a likely slowdown in activity in this sector over the coming months.

The Council members observed that activity growth in the euro area remained low, and GDP growth in 2019 Q3 was probably weaker than in the previous quarter. Incoming information signalled a deepening of the downturn in the industrial sector of the euro area, which was beginning to have an adverse effect on the previously relatively high activity in the service sector.

It was stated that economic conditions in Germany continued to be weak, and the outlook for that economy had worsened. Some Council members judged that the German economy had probably entered recession in 2019 Q3. Incoming data showed that the deteriorating situation in German industry was accompanied by softer activity in the service sector and slower employment growth. Some Council members were of the opinion that those developments increased the risk that consumer demand, which had been the main driver of economic growth in Germany up to that point, would weaken in the subsequent quarters.

In the United States, while business climate continues to be favourable, the economy is in a slowdown. Business confidence indicators for both industry and services signal that economic activity growth in 2019 Q3 had softened. Some Council members expressed the opinion that weaker growth in these sectors would have a dampening effect on corporate investment activity in the quarters to come. It was observed that against the background of shrinking exports, growth in the US economy would continue to be driven by rising consumption. It was pointed out that that the recent decline in household confidence posed a risk factor to consumer demand growth. Should consumption weaken, GDP growth in the United States might, according to some Council members, slow in the coming quarters by more than forecast. Certain Council members pointed to a range of indicators signalling a growing risk of recession in the United States.

The Council members highlighted the fact that the growth outlook for the major emerging market economies was also deteriorating. It was noted that in China, following the likely slowdown in 2019 Q3, GDP growth was expected to decelerate further. Growth forecasts for India had recently been revised markedly downwards. In turn, GDP growth in Russia – notwithstanding the expected slight pick-up – would probably remain weak.

In the global commodity markets, oil prices increased in September while remaining lower than a year ago. It was highlighted that following their temporary spike, related to the attack on an oil refinery in Saudi Arabia, oil prices fell. Certain Council members judged that the fall in oil prices was due to supply-side factors. Other Council members expressed the view that the decline in oil prices was also driven by the negative outlook for demand for oil as a result of the slowing pace of global economic growth. It was emphasised that lower oil prices than a year ago dragged on price growth in many economies, including the euro area.

The Council members observed that many central banks had recently eased their monetary policy. In particular, in September, the European Central Bank had loosened its monetary policy by decreasing the deposit rate further below zero, announcing the resumption of its asset purchase programme and relaxing the terms of long-term refinancing operations. At the same time, the ECB had signalled the likely maintenance of interest rates at the present level or below in the subsequent quarters. Likewise, the Federal Reserve of the United States had eased the monetary policy by cutting interest rates again. Some Council members observed that market expectations pointed to further monetary policy easing in the United States in the quarters to come.

The Council members judged that economic conditions in Poland remained favourable, even though incoming data pointed to a weakening in economic growth in 2019 Q3. It was observed that the main factor behind softer activity growth was the deterioration in economic conditions abroad. It is reflected in the slowing export growth and a decline – seen in August 2019 – in industrial output. It was pointed out that, at the same time, GDP growth was being stabilised by rising consumption, supported by increasing employment and wages, very strong consumer sentiment and the disbursement of social benefits. Investment in the economy was also judged to be rising, albeit probably at a slower pace than in the first half of 2019, as indicated by a slowdown in output growth in construction and assembly in recent months.

In the Council's assessment, GDP growth in the coming years would continue at a relatively high level, despite the expected slowdown. It was noted that economic growth would still be driven by consumption demand growth, supported by the sustained rise in household disposable income due to favourable labour market conditions combined with the increase in the minimum wage in 2020, as well as the disbursement of social benefits and the tax cuts. At the same time, some Council members judged that owing to the deteriorating outlook for global economic conditions and the signs of its feeding through to activity in Polish industry, the pace of growth in the subsequent quarters might be slower than envisaged in the July projection. In contrast, certain Council members expressed the opinion that GDP growth might prove slightly higher than forecast. They judged that the diminished demand for Polish products from key trading partners could be substituted by increased sales to other foreign markets and to the domestic market. Certain Council members were of the opinion that investment growth might also exceed the forecast due to the positive influence of public investment projects on enterprises' investment decisions. At the same time, the Council members highlighted the fact that uncertainty about the scale and duration of the slowdown abroad and about its impact on domestic economic activity had increased again recently.

Incoming data on employment and wages confirm the continued good labour market performance. Some Council members were of the view that demand for labour was probably weakening, as indicated by the slowing growth in employment in the enterprise sector and data on the number of newly created positions and job offers. At the same time, the unemployment rate remains very low. It was stressed that this was accompanied by stable wage growth in the enterprise sector.

It was pointed out that in September – according to the GUS flash estimate – inflation stood at 2.6% y/y. It was highlighted that despite the decline in month-on-month growth in food prices, their annual growth remained high and posed a major factor driving the inflation up. Alongside that, lower than a year ago energy prices, including fuel prices, had a curbing effect on price growth. At the same time, core inflation remained moderate, which – in the opinion of some Council members – was consistent with the present business cycle position of the Polish economy. Certain Council members judged that the pick-up in the prices of services and goods sensitive to domestic economic conditions might be a sign of mounting demand pressure. It was also emphasised that producer price growth remained low.

According to current forecasts, inflation might rise slightly in the coming months, and in 2020 Q1 price growth might temporarily accelerate and run close to the upper limit of deviations from the inflation target. Some Council members noted that the inflation growth forecast at the beginning of 2020 would largely result from the statistical base effect and the assumed increase in energy prices. These Council members underlined that – according to current forecasts – in the successive months of 2020 inflation would decline and run close to 2.5% within a year. The majority of the Council members judged that a factor of uncertainty regarding the possible rise in inflation at the beginning of 2020 was the regulatory changes in the electricity market, which were difficult to predict. Some Council members expressed the opinion that in the case of a further deterioration in global economic conditions and its stronger impact on the domestic economic situation, price growth in the subsequent quarters of 2020 might decline more sharply than forecast. However, certain Council members were of the opinion that the negative impact of the downturn abroad on inflation in Poland might be limited when accompanied by increased domestic sales. These Council members also pointed out that the relatively high wage growth, exceeding that of labour productivity, might boost price growth. Certain Council members underlined that a factor of uncertainty for the inflation outlook was the development of global oil prices.

Certain Council members noted that in the recent period growth in consumer loans and money supply remained high, exceeding the growth rate of nominal GDP. However, other Council members judged that total growth of loans to the non-financial sector was currently not excessive.

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 as well as 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 likely to remain stable also 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. However, in the opinion of these Council members, uncertainty about economic outlook and future price growth had risen, while the likelihood of such a scenario had declined.

Certain Council members noted that in recent months there were more signs of a deterioration in global economic conditions. 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 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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