Minutes of the Monetary Policy Council decision-making meeting held on 7 November 2018

During the meeting, the Council noted that global economic conditions remain favourable, although signs of a weakening had appeared in some economies. It was pointed out that GDP growth in the euro area had declined in 2018 Q3, in part probably on account of a slowdown in international trade. At the same time, it was observed that conditions for further consumption growth remained favourable in the euro area, owing to strong consumer sentiment as well as rising employment and wages. Economic conditions in the euro area also continued to benefit from the accommodative monetary policy of the ECB. However, some Council members underlined that some indicators of economic conditions, particularly in Germany – Poland's main trading partner, had deteriorated recently. In turn, economic growth in the United States had picked up slightly, what confirmed that economic conditions there were still very strong, supported by further rise in employment and the fiscal stimulus.

While analysing developments in energy commodity prices, it was pointed out that despite a recent decline, they stayed markedly higher than the year before. It was noted that geopolitical factors continued to have a significant impact on oil prices. In particular, it was stressed that their recent fall resulted from a temporary relaxation of US sanctions on purchases of oil from Iran by other countries. Another factor with a dampening effect on oil prices was the rise in oil output in the United States, as well as in Saudi Arabia and other OPEC+ countries. At the same time, the growth in demand for oil, despite signs of weakening global economic conditions, remained relatively strong.

When discussing inflation developments abroad, it was pointed out that the earlier significant increase in global energy commodity prices contributed to higher inflation in many countries. Alongside that, core inflation in the external environment of the Polish economy, including the euro area, remained moderate.

Referring to monetary policy in the external environment of the Polish economy, it was noted that the ECB was keeping the deposit rate below zero. Concurrently, the ECB continued to purchase financial assets, although on a reduced scale since October, and reaffirmed its guidance to terminate the purchase programme by year-end. Some Council members judged that interest rates in this region might remain low for longer than currently signalled by the ECB, should the expected economic slowdown in the euro area prove stronger than indicated by the current forecasts and the rise in inflation be driven mainly by increasing energy prices, with continuously moderate core inflation.

It was noted that in the United States, the Federal Reserve continued to gradually tighten monetary policy. Some Council members pointed out that the further gradual monetary policy tightening by the Fed, combined with mounting concerns about the outlook for the global economy, had recently translated into some fall in asset prices in international markets. At the same time, it was emphasised that yields on Polish Treasury

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bonds and the exchange rate of the zloty had remained stable, despite the deteriorating sentiment in global financial markets. In the opinion of the Council, this reflects a favourable assessment of Poland's economic situation and its fundamentals, including the absence of external and internal macroeconomic imbalances.

Discussing the developments in Poland’s economy, it was underlined that incoming data indicated continuously favourable economic conditions in Poland, although GDP growth in 2018 Q3 was probably lower than in the first half of 2018. It was noted that activity growth remained to be driven by rising – albeit at a slightly lower rate than in the previous quarters – consumption, still supported by increasing employment and wages, together with very strong consumer sentiment. This was accompanied by investment growth, at a pace which had probably picked up in 2018 Q3 owing to, in particular, a significant acceleration in local government investment. However, some Council members pointed out that data for recent months – including the decline in the PMI index as well as slower growth in industrial and construction-assembly output, coupled with weaker retail sales growth – were signalling a likely gradual weakening in economic activity.

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 abroad, and slower growth of both domestic consumption and investment. Some Council members emphasised that looking ahead consumption growth would be less strongly supported by rising wage bill owing to weaker employment growth and a likely stabilisation in wage growth. Also the potential increase in electricity prices for households would probably have a downward effect on households' ability to increase their other expenditures. In turn, with regard to investment, those Council members noted that given the anticipated slowdown in activity growth abroad and in Poland, coupled with a high degree of EU fund utilisation, it was difficult to expect any further acceleration. Yet certain Council members argued that despite the expected slowdown, GDP growth was forecast to remain above 3% in the years to come. The majority of the Council members highlighted the continued uncertainty around the scale of the anticipated GDP slowdown globally, and as a consequence, also in Poland.

While analysing current developments in the labour market, it was pointed out that the unemployment rate remained low and the annual growth of employment in the enterprise sector was still relatively high, although the level of employment in this sector had declined for the second consecutive month. It was underlined that this was accompanied by higher wage growth than in the previous year, however, without any further acceleration. Some Council members judged that wage growth would probably continue at its current pace also in the coming quarters, as indicated by a decline in the share of firms experiencing increasing wage pressure. According to those Council members, wage growth may also be dampened by a rise in energy prices, which increases companies' operating costs. Certain Council members, in turn, indicated that the inflow of foreign workers was declining, and in 2019 some of them could even leave the Polish labour market in response to changes in the immigration policy of Germany. This, together

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with the likely step-up in wage demands in the public sector, might stimulate wage growth in the subsequent quarters. However, it was stressed that the impact of the new migration policy of Germany on migration flows remained uncertain.

Discussing inflation developments in Poland, it was observed that despite the relatively fast GDP growth and higher wage growth than last year, the annual consumer price growth remained moderate. According to the GUS flash estimate, in October inflation even declined. At the same time, it was emphasised that core inflation continued to be low.

While discussing the near-term outlook for inflation, it was noted that significant uncertainty existed at the moment about developments in the CPI index in 2019 related, in particular, to a potential rise in the energy prices for households, whose scale is currently unknown. Some Council members highlighted that in line with current forecasts, including the results of the November NBP projection, inflation in 2019 might exceed 2.5%. It was underlined that the rise in the forecast inflation for 2019 was to be mainly driven by the assumed significant increase in electricity prices for households, stemming from the relatively high global prices of energy commodities, as well as the rise in the prices of both carbon dioxide emission allowances and the so-called green certificates and other certificates of origin. Higher energy prices may also be a result of introducing the emission charge on fuels from 2019. Core inflation, in turn, is forecast to grow only gradually, and should remain below 2.5% in 2019. The majority of the Council members stressed that given the above, higher inflation in 2019 might stem predominately from potential exogenous supply shocks that may increase price growth, while simultaneously having an adverse effect on the situation of firms and households, and thus on the pace of economic growth.

With reference to the medium-term outlook for inflation, certain Council members observed that energy price growth might also act as a factor rising inflation in the coming years. Moreover, certain Council members judged that the increase in energy prices might translate into higher inflation expectations. In this context, other Council members pointed to the risk of inflation running above 2.5% over the next few years. However, most Council members emphasised that in line with the November NBP forecast – based on conservative assumptions on the scale of energy price increases – inflation should remain within a band for deviations from the NBP inflation target and, following a marked rise in 2019, would embark on a downward slope in 2020. In the opinion of these Council members, the likelihood of a persistent increase in inflation due to rising energy costs is contained by the intense competition among companies and the expected slowdown in GDP growth. Referring to inflation expectations, these Council members emphasised that no risk of their excessive growth could be seen in the longer term.

While discussing NBP monetary policy, the majority of the Council members decided that interest rates should remain unchanged. In the opinion of these Council members, current information and projection results indicated a relatively favourable outlook for economic conditions in Poland, although a gradual slowing in GDP growth was expected

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in the years ahead. In line with the projection, inflation in 2019 will probably exceed 2.5%, boosted, among others, by a rise in energy prices remaining beyond the impact of monetary policy, but will remain within a band for deviations from the target. In the medium term, however, the expected slowdown in economic growth will have a dampening effect on inflation. As a result, in the monetary policy transmission horizon inflation will remain close to the target. Hence, 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 this assessment was supported by the limited risk of inflation permanently exceeding the target, along with a likely weakening of economic conditions globally and in Poland. Moreover, certain Council members underlined that lending growth to the non-financial sector continued to be moderate and did not create excessive inflationary pressure, while measures to limit it could additionally weaken economic activity growth.

In the opinion of some Council members, should incoming data indicate a significant increase in inflation in 2019, and successive projections suggest inflation remaining above the target even after the fading of supply shocks, it might be justified to consider an increase in the NBP interest rates in the coming quarters. In the opinion of these Council members, an assessment of the rationale for raising interest rates should, in particular, include the scale and persistence of the transmission of higher energy prices on the growth of other prices and inflation expectations, as well as economic situation and labour market conditions in the quarters ahead.

An argument was raised that the upward revision of the inflation forecast for the coming year, increasing the risk of inflation running above 2.5% in the longer term, spoke in favour of a rise in interest rates at the current meeting.

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.

Some Council members underlined that the next projection, which will have a longer time horizon and should take into account information on the actual energy price changes at the beginning of 2019, would be important for the assessment of the medium-term outlook for inflation and economic growth.

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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