Minutes of the Monetary Policy Council decision-making meeting held on 6 November 2019

During the meeting, the Council pointed out that activity growth in the world economy remained relatively soft and uncertainty about the global economic outlook persisted. It was underlined that industrial output was declining in year-on-year terms in almost all major world economies and global growth forecasts were lowered. As a result, in line with some projections, global GDP growth in 2019 might hit the lowest level for 10 years, and in 2020 might remain low, especially in the advanced economies.

In the euro area, annual GDP growth in 2019 Q3 continued at a low level. It was pointed out that the downturn in industry was negatively affecting GDP growth in this economy. Against this background, it was highlighted that the euro area manufacturing PMI indicated the continuation of recessionary trends, although recently the index ceased to deteriorate. At the same time it was emphasised that business conditions in services in the euro area remained favourable, yet some Council members were of the opinion that the new orders index in this sector had declined considerably, which might signal a deterioration in business conditions in services in the coming quarters.

It was pointed out that in Germany GDP growth in quarter-on-quarter terms probably remained low in 2019 Q3. It was stressed that industrial output in the German economy had been on a downward trend for several months, and the incoming data on business conditions suggested continuing negative trends in industry. It was underlined that the GDP growth forecasts for the German economy foresaw low economic growth also in 2020. Certain Council members indicated that economic conditions in France remained more favourable than in Germany.

The Council members judged that in the United States economic conditions stayed relatively favourable, yet GDP growth declined in 2019 Q3. It was emphasised that activity growth in this economy continued to be driven by consumption, supported by robust rise in wages and low unemployment, while annual growth in investment and exports were close to zero in 2019 Q3.

Inflation in many economies worldwide had decreased in recent months and remained moderate. In this regard, attention was drawn to a decline in inflation in the euro area, including in the euro area's major economies, significantly below the level consistent with the price stability definition of the European Central Bank. At the same time, it was pointed out that inflation was higher in the faster growing Central and Eastern European euro area economies.

The Council members drew attention to the fact that crude oil prices worldwide remained at a moderate level, which was one of the factors supporting low inflation. Certain Council members also expressed an opinion that crude oil prices might remain

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moderate in the coming quarters on account of low global growth and the expected increase in oil production.

The Council members noted that many central banks have eased their monetary policies in the recent period. It was indicated that in October 2019, the Federal Reserve had cut its interest rates for the third time this year, while announcing it might leave interest rates unchanged in the coming months. Yet some Council members remarked that in line with the current market expectations, the Federal Reserve might take a decision on further interest rate cuts, although not in the months to come.

It was emphasised that the European Central Bank, following the monetary policy easing in September 2019, had not changed the parameters of its monetary policy in October 2019. It was also indicated that financial markets expected further deposit rate cuts by the ECB in the future and anticipated the deposit rate to remain negative for the next several years.

The Council members noted that economic conditions remained good in Poland, although the incoming data pointed to a possible slowing in growth in 2019 Q3, mainly due to the economic downturn abroad. It was underlined that the decline in the annual GDP growth in 2019 Q3 was suggested by lower output growth in both industry as well as assembly and construction in this period. Attention was also paid to further investment growth in 2019 Q3, although it was probably lower than in previous quarters. Some Council members pointed out that the recent fall in the PMI suggested that the weakening in economic activity abroad led to a change in the assessment of economic conditions by some enterprises. Some Council members indicated that despite sluggish economic activity in the euro area, Polish exports continued to expand, which was supported by its higher geographic diversification.

The Council members noted that further growth in consumer demand, related to very strong consumer sentiment, favourable labour market conditions and disbursement of social benefits, had a positive impact on economic conditions in Poland. Yet some Council members pointed out in this context that although the situation in the labour market remained very good, the annual growth rate of employment in the enterprise sector declined and wage growth remained stable.

The Council members judged that the outlook for domestic economic conditions remained favourable and GDP growth – despite its expected decline – would continue at a relatively high level over the coming quarters. The majority of the Council members was of the opinion that GDP growth would probably run close to the level envisaged in the November projection. It was pointed out that the economic downturn abroad and the possible decline in investment growth might contain GDP growth, while the continuing rise in consumer demand would have a stabilising impact on economic conditions.

Some Council members judged that the risk of GDP growth being lower than envisaged by the central path of the November projection persisted. It was pointed out that stronger than expected economic slowdown abroad might contribute to lower GDP growth in Poland. According to certain Council members, rising prices of services could

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be a risk factor for consumption growth in the quarters to come, as they were likely to negatively affect both consumer sentiment and the purchasing power of consumers' income.

The Council members pointed out that according to the flash estimate of Statistics Poland (GUS), inflation in October 2019 was running at 2.5% y/y. It was boosted by the elevated – albeit declining – growth of food prices, whereas falling energy prices were curbing CPI inflation. The majority of the Council members indicated that in the recent period core inflation had risen, yet it continued to be moderate. These Council members emphasised that growth in goods prices remained very low, while core inflation was propelled by rising services prices, partly driven by increases of certain administered charges, and partly by rising wages that reflected convergence of the Polish economy. Certain Council members also drew attention to the low deflator of retail sales and the very low growth rate of the PPI that had persisted for several months.

Certain Council members indicated, however, that the higher growth of services prices was also the result of persisting demand pressure in the economy. Moreover, they noted that the value added deflator was currently higher than consumer price growth.

The majority of the Council members pointed out that in line with the central path of the November projection, CPI inflation in 2020 Q1 would temporarily increase, then decline and run close to the inflation target in the subsequent quarters. It was underlined that in the years to come inflation would be contained by weaker economic growth in Poland and likely persistence of low inflation abroad. The majority of the Council members also indicated that uncertainty about energy prices in the coming quarters remained.

Certain Council members assessed that due to the marked – in their opinion – demand pressure in the economy, the following quarters might continue to see inflation run higher than envisaged in the central projection path. In this context, they also attracted attention to the high – in their view – rise in household lending and growth in monetary aggregates exceeding that of nominal GDP. However, other Council members pointed out that corporate lending was low and continued to decline.

The majority of the Council members decided that interest rates should remain unchanged. In their opinion, the outlook for the domestic economy remained favourable and GDP growth, despite the expected decline, would continue at a relatively high level in the coming quarters. At the same time, the Council assessed that uncertainty as to the scale and duration of the economic slowdown abroad and its impact on domestic economic activity persisted. In the opinion of the majority of the Council members, after a temporary rise in 2020 Q1, inflation would stay close to the target over the monetary policy transmission horizon. Consequently, 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 also expressed an opinion that, taking into account current information and the projection results, interest rates were likely to remain

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stable in the coming quarters. These Council members pointed out that their assessment was supported by current forecasts indicating that inflation would remain in line with the NBP inflation target over the monetary policy horizon amid the forecast gradual slowdown in GDP growth.

Certain Council members emphasised that there were factors that might boost inflation higher than indicated by the current forecasts. They noted that should there be a significant rise in inflation and inflation expectations that would jeopardize meeting the inflation target in the medium term, it might be justified to consider an increase in interest rates in the coming quarters.

In turn, certain Council members pointed out that in recent months there were more signs of a deterioration in global economic conditions. In the opinion of these Council members, the above 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% and the rediscount rate at 1.75%.

Publication date: 21 November 2019

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