# Minutes of the Monetary Policy Council decision-making meeting held on 4 December 2019

During the meeting, the Council pointed out that activity growth in the world economy remained soft and uncertainty about the global economic outlook persisted. Recessionary trends continue in industry in the major economies and annual growth in global trade is negative. Reflecting these developments, forecasts of international financial institutions indicate continued sluggish GDP growth worldwide in 2020.

It was emphasised that in the euro area economic growth remained low in 2019 Q3. It was noted that industrial output in the euro area was declining and business confidence indicators for the industrial sector – despite some improvement seen in November – still did not signal a recovery. It was judged that economic activity in the euro area was supported by a steady rise in consumption, driven by positive household sentiment and favourable labour market conditions. However, certain Council members pointed to the gradually deteriorating sentiment in services and slower annual growth in employment, which both may pose a risk for economic conditions in the euro area.

In Germany, GDP growth in 2019 Q3 was positive and higher than expected, albeit still very low. It was also emphasised that in the United States, the GDP data for 2019 Q3 corroborated the persistently robust economic conditions as compared to other advanced economies, yet annual GDP growth was gradually decreasing. It was pointed out that amid weak global economic growth, inflation in many countries was moderate, and in the euro area it was low.

In November, oil prices in the global commodity markets were relatively stable, although subject to temporary fluctuations driven by both supply and demand factors.

The European Central Bank is keeping the deposit rate below zero, while conducting asset purchases and signalling the maintenance of loose monetary policy in the coming quarters. The US Federal Reserve, after the interest rate cuts of recent months, was keeping the rates unchanged.

In Poland, economic conditions remain good, despite slower economic growth in 2019 Q3. GDP growth is supported by stable consumption growth, fuelled by favourable labour market conditions, very strong consumer confidence and disbursement of social benefits. Investment continued to rise in 2019 Q3, although at a slower pace, which was most likely due to the fall in local government investment and the slower growth in investment co-financed by EU funds. At the same time, it was underlined that exports growth increased in 2019 Q3, albeit it was lower than in the previous years.

Some Council members pointed out that the incoming monthly data were signalling the likelihood of a slight slowdown in GDP growth in 2019 Q4. In October 2019, growth in industrial output was lower than in the first half of 2019, while assembly and construction output declined in year-on-year terms. Certain Council members also stressed that household sentiment remained upbeat, although it had deteriorated slightly in the recent period, and the PMI in industry continued at below 50 points.



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The Council members indicated that wage growth in the economy had picked up somewhat in 2019 Q3 on the back of the rising wages in the public sector. Attention was also drawn to the persistently low unemployment rate. However, certain Council members emphasised that demand for labour might stabilise. This was suggested by the weaker wage growth and a further slight decrease in employment in month-on-month terms in the corporate sector as well as the lower number of job offers in the recent period.

The majority of the Council members were of the opinion that the outlook for domestic economic conditions remained favourable, and GDP growth – despite the expected slowdown – would continue at a relatively high level in the coming quarters. It was argued that the continuation of sluggish growth 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.

It was pointed out that annual inflation stood at 2.6% y/y in November 2019. It was driven up by elevated food price growth, while being curbed by lower energy prices than a year ago, including fuel prices. Some Council members noted that inflation in month-on-month terms was lower than in the first half of 2019.

The majority of the Council members judged that although core inflation had risen somewhat in recent months, it remained moderate. These Council members underlined that growth of non-food goods prices stayed very low, while core inflation was propelled by faster growth in services prices, partly driven by increases in certain administered charges, and partly by rising wages that reflected convergence of the Polish economy. Consequently, the majority of the Council members assessed price pressures in the economy to be moderate. At the same time, it was observed that the retail sales deflator was low, and producer price growth had declined slightly below zero in the recent period. Certain Council members were of the opinion that one of the factors behind the faster growth in services prices than in previous years was the persisting demand pressure in the economy.

The majority of the Council members anticipated that CPI inflation would rise temporarily in 2020 Q1, before declining and running close to the inflation target in the subsequent quarters. It was emphasised that over the projection horizon inflation would be contained by weaker economic growth in Poland and the likely persistence of low inflation abroad. The majority of the Council members emphasised that the forecast temporary rise in inflation in 2020 Q1 would stem from factors beyond the reach of domestic monetary policy, including statistical base effects. Moreover, it was judged that uncertainty about energy price growth in the coming quarters continued.

Certain Council members were of the opinion that inflation in the subsequent quarters might remain higher than 2.5%. They underlined that price growth might be boosted by further growth in services prices, including prices of administered services. They also pointed out the potential upward pressure on inflation stemming from the growth in monetary aggregates, related to the rapid – in their opinion – expansion in consumer and housing loans to households. In this context, these Council members additionally observed that the NBP reference rate was negative in real terms, and that the rise in inflation in 2020 Q1, should it materialise, would bring it down.



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In turn, the majority of the Council members indicated that central bank interest rates were currently negative in real terms in many economies, including, in particular, in the euro area. They also pointed out that the real interest rates on lending to households and enterprises were well into positive territory. These Council members underlined that total credit growth in the economy was stable and remained lower than nominal GDP growth, while corporate lending growth was slowing down.

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, interest rates were likely to remain 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 slowing 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 signs of a deterioration in global economic conditions persisted. In the opinion of these Council members, the above factors could also have a negative impact on economic growth in Poland in the quarters to come. 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 and 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%.

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