NBP Narodowy Bank Polski

Monetary Policy Council

Report on monetary policy in 2019

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Warsaw, May 2020

In presenting the *Report on Monetary Policy*, the Monetary Policy Council acts in accordance with Article 227 of the Constitution of the Republic of Poland, which imposes the obligation on the Council to present a report on the achievement of the purposes of monetary policy within 5 months following the end of the fiscal year. In accordance with Article 53 of the Act on Narodowy Bank Polski, the *Report on Monetary Policy* is announced in the Official Gazette of the Republic of Poland, the *Monitor Polski*. The *Report* presents the main elements of the monetary policy strategy, a description of macroeconomic conditions and decisions taken with respect to monetary policy in the year under review, as well as a description of the monetary policy tools applied.

The *Report on Monetary Policy in 2019* is accompanied by the appendices presenting selected macroeconomic and financial data, as well as by *Minutes of the Monetary Policy Council decision-making meetings* and *Voting records of the Monetary Policy Council members on motions and resolutions* in the year the *Report* encompasses.

An ex-post assessment of the conduct of monetary policy should take into account, above all, that the decisions of monetary authorities affect the economy with a considerable lag and that they are taken under uncertainty about future macroeconomic developments. Moreover, the economy is subject to macroeconomic shocks that – while remaining outside the control of the domestic monetary policy – may to a large extent affect economic conditions and domestic inflation developments in the short and sometimes in the medium term.

The *Report on Monetary Policy in 2019* is a translation of the publication of Narodowy Bank Polski entitled *Sprawozdanie z wykonania założeń polityki pieniężnej na rok 2019*. In case of discrepancies, the Polish version prevails.

Content

1. Monetary policy strategy in 2019

In 2019, the Monetary Policy Council conducted monetary policy in line with Monetary Policy Guidelines for 2019, adopted in September 2018. As in previous years, the main objective of monetary policy was to maintain price stability while supporting sustainable economic growth and financial system stability. This way, the Council pursued the basic objectives of Narodowy Bank Polski (NBP) set out in the Constitution of the Republic of Poland and in the Act on Narodowy Bank Polski of 29 August 1997. According to Article 227 Section 1 of the Constitution of the Republic of Poland "Narodowy Bank Polski shall be responsible for the value of Polish currency". The Act on Narodowy Bank Polski states in Article 3 Section 1 that "the basic objective of the activity of NBP shall be to maintain price stability, while supporting the economic policy of the Government, insofar as this does not constrain the pursuit of the basic objective of NBP."

The Council strives to ensure price stability by using a medium-term inflation-targeting regime. Since 2004, the Council has pursued a medium-term inflation target of 2.5%, with a symmetrical band for deviations of ± 1 percentage point. Inflation-targeting countries report lower inflation, on average, than non-inflation targeters.

From 2004 until the end of 2019, the average inflation in Poland has amounted to 2.0%, thus it has been close to 2.5% and remained within the symmetrical tolerance band, although in some years price growth strayed outside the band. Furthermore, economic growth has been relatively stable over the past few years and close to its long-term trend, with no macroeconomic imbalances building up in the economy. These developments indicate that inflation targeting has been effective in ensuring long-term price stability, while at the same time supporting sustainable economic growth.

The medium-term nature of inflation target means that due to macroeconomic and financial shocks, inflation may temporarily deviate from the target or even run outside the band for deviations from the target. The response of monetary policy to shocks is flexible and contingent on their causes and the assessed persistence of their consequences, including the impact on inflation developments. When inflation deviates from the target, the Council flexibly determines the expected time necessary to bring it back to the target, as a rapid return to the target may entail significant costs to macroeconomic and financial stability.

The monetary policy strategy pursued by the Council assumes flexibility of the instruments applied. This means that the range of instruments used by NBP can be adapted to the nature of disturbances observed in the economy. The flexible use of monetary policy instruments is conducive to effective functioning of the transmission mechanism as well as macroeconomic and financial stability.

While taking monetary policy decisions, the Council considers the monetary transmission mechanism, including the fact that changes in monetary policy parameters affect the economy with a lag. The time lag between an interest rate decision and its peak impact on real variables (such as output or employment) and on inflation takes several quarters and may change over time. Moreover, monetary policy is conducted under uncertainty, in particular about future economic developments.

The experience of the global financial crisis shows that stabilizing inflation at a low level is an important, yet insufficient condition to maintain macroeconomic stability, which in turn supports price stability in the long term. In particular, imbalances in the financial sector pose a threat to long-term price stability. Bearing this in mind, the Council conducts monetary policy in a manner that supports the stability of the financial system and mitigates the risk of imbalances accumulating in the economy. Therefore, in its decisions, the Council takes into account developments in asset prices (especially real estate prices) and lending growth. Given the free movement of capital and highly integrated financial markets, macroprudential policy should play a primary role in containing macroeconomic imbalances. Owing to its capacity to selectively influence credit aggregates, macroprudential policy can stabilize lending growth at lower costs for economic growth than in the case of applying monetary policy instruments.

Besides monetary and macroprudential policy, fiscal policy plays an important role in maintaining macroeconomic stability. A fiscal policy that ensures long-term stability of public finance is necessary to maintain macroeconomic stability.

The Council pursues inflation targeting under the floating exchange rate regime. The floating exchange rate regime does not rule out interventions in the foreign exchange market when necessary to ensure macroeconomic and financial stability.

2. Monetary policy and macroeconomic developments in 2019

In 2019, monetary policy in Poland was conducted against the background of relatively low global economic growth, in particular in the euro area. This was accompanied by a marked decline in global trade and a weakening activity in the industrial sector. At the same time, global inflation remained moderate, while in in the euro area inflation rate was low, running significantly below 2%. At the end of 2019, price growth increased significantly in many economies, particularly in emerging market economies. This was mainly due to food price growth, largely as a result of rising prices of pork in the wake of the African swine fever (ASF) epidemic, above all in China.

Amid moderate inflation and relatively low economic growth, the major central banks eased their monetary policy rhetoric in the first half of 2019, and in the second half of the year they loosened their monetary policy. In particular, the US Federal Reserve (Fed) lowered interest rates and began the purchase of Treasury bills as well as launched additional repo operations, while the European Central Bank (ECB) cut the deposit rate further below zero and relaunched its asset purchase programme. Amid these conditions, in the developed economies yields on long-term bonds declined and stock indices rose, reaching their highest recorded levels in some of the developed markets.

In Poland, economic conditions were good in 2019, although GDP growth was lower than in the previous year (4.1% in 2019 compared to 5.3% in 2018). Growth continued to be driven mainly by rising consumption – supported by increasing employment and wages, low unemployment as well as strong consumer confidence and disbursement of social benefits – although towards the end of the year consumption growth slowed down. This was accompanied by a further increase in investment, although growth in gross fixed capital formation was slightly lower in 2019 than in 2018. This was due to the decrease in public investment, resulting mainly from the fall in investment expenditure of local government units after its robust growth in 2018. This was due, among others, to the implementation of numerous investment projects before the local government elections. At the same time, the scale of the slowdown in growth in fixed capital formation was curbed by the marked acceleration in corporate investment amid high capacity utilisation and the continued favourable economic situation in industry. The foreign trade balance also had a positive contribution to GDP growth in 2019, which was a result of the weaker decline in exports than imports, despite the weakened economic conditions in the immediate environment of the Polish economy.

Consumer price growth amounted to an annual average of 2.3% and was consistent with the medium-term inflation target (2.5% with a symmetrical band for deviations of ± 1 percentage point). This was accompanied by moderate core inflation. In 2019, inflation net of food and energy prices stood, on average, at 2.0%.

At the same time, no macroeconomic imbalances were building up in the economy. In particular, in 2019 growth in lending to the non-financial sector stood below nominal GDP growth (lending growth amounted to 5.8%, while nominal GDP growth stood at 7.2%). As a result, the ratio of non-financial sector debt to GDP declined. In addition, in 2019 the trade surplus increased, as did the positive combined current and capital account balance. As a result, foreign debt to GDP decreased. Against this background, the zloty exchange rate was relatively stable.

In view of the above conditions, the Council kept the NBP interest rates unchanged in 2019, including the reference rate at 1.5%. The stabilization of the NBP interest rates was conducive to maintaining price stability and to keeping the Polish economy on a sustainable growth path as well as maintaining macroeconomic balance.

Similarly to previous years, in 2019 communication with the public played an important role in the conduct of monetary policy. This involved the Council informing the public about its decisions and presenting an assessment of economic developments behind them. The key communication instruments applied in 2019 included the cyclical publications: *Information from the Meeting of the Monetary Policy Council* (and the accompanying press conferences following the Council meetings), *Minutes of the Monetary Policy Council decision-making meetings*,[1] *Inflation Reports*, as well as *Report on Monetary Policy in 2018* and *Monetary Policy Guidelines for 2020*.

The most important developments motivating the Council's decisions in 2019, divided into the six-month periods, are presented below.

In the first half of 2019, GDP growth rate remained relatively low in many economies around the world. At the same time, uncertainty persisted about the global outlook, partly due to the changes in trade policy of the major countries of the world. Amid these conditions, global industrial activity weakened; however, the economic situation in the service sector remained favourable. In the euro area, including in Germany, economic activity growth remained weak in the first half of 2019. GDP was slowed down by the weak economic conditions in the industrial sector. By contrast, the continued growth in consumer demand, supported by rising employment and wages, as well as a decrease in the tax burden and increase in social transfers to households in some of the major economies in the euro area, had a stabilising effect on economic growth. The favourable conditions for consumption growth were conducive to maintaining the good situation in the service sector. In turn, in the United States the economic conditions remained good in the first half of 2019 due to the favourable – from the point of view of employees – situation in the labour market. However, in China economic activity growth gradually slowed down in 2019, despite a temporary stabilisation of GDP growth in 2019 Q1 due to the government's expansionary fiscal policy.

In the first half of 2019, global price growth remained moderate, despite a marked increase in the prices of some food products. In particular, pork prices increased substantially as a result of the spread of the ASF epidemic, which significantly reduced the supply of pork around the world. In turn, despite growth in the first months of 2019, global oil prices were lower than in the first half of 2018. Moderate price growth in the global economy was the result of the persistence of low inflation in some of the advanced economies, amid faster price growth in emerging market economies. In particular, low inflation

[1] The *Minutes of the Monetary Policy Council decision-making meetings*, included in Annex 2 to this *Report*, contain a more detailed coverage of issues and arguments with an impact on the decisions on interest rates taken by the Council at its successive meetings in 2019.

persisted in the euro area, where HICP inflation stood at 1.4%, in the first half of 2019, while core inflation (net of food, energy, alcohol and tobacco prices) ran at 1.0%.

Faced with the persistence of relatively low GDP growth and moderate inflation in many economies, the major central banks eased their monetary policy rhetoric in the first half of 2019. The ECB kept interest rates close to zero, including the deposit rate below zero, and fully reinvested the principal payments from maturing securities purchased under the asset purchase programme. At the same time, the ECB extended the previously signalled period of keeping interest rates at the current level. In turn, after the interest rate hikes in 2018, the Fed stabilised interest rates in the first half of 2019 and indicated the possibility of interest rate cuts. At the same time, the Fed slowed down the process of reducing the size of its balance sheet and announced that the process will end in the second half of 2019.

The easing of rhetoric by the major central banks in the first half of 2019 contributed to a fall in government bond yields worldwide, including in Poland, and was conducive to a significant rise in share prices in the advanced economies after their fall at the end of 2018. At the same time, the exchange rates of currencies of many emerging economies, including the zloty, were relatively stable against the US dollar.

In Poland, the good economic conditions continued in the first half of 2019, although the growth rate was lower than in previous quarters (GDP growth in the first half of 2019 ran at 4.7% y/y). The growth in economic activity was supported by rising consumption driven by increasing employment and wages, very strong consumer confidence and disbursement of social benefits. The continued rise in employment was accompanied by a further decline in the unemployment rate, which was running at a historic low. Another important driver of GDP growth was rising investment, particularly corporate investment, which was supported by continued strong domestic demand amid high capacity utilisation. At the same time, the deterioration in manufacturing sentiment and heightened uncertainty about further growth in activity in the manufacturing sector could have limited corporate investment. Net exports also made a positive contribution to GDP growth, although growth in foreign trade turnover slowed down amid weaker economic growth in the external environment of the Polish economy. At the same time, thanks to the recovery in foreign sales to non-euro area countries, export growth slowed down less markedly than import growth. This contributed to the persistent current account surplus (in relation to GDP). The combined current and capital account balance was also positive, which indicated a high degree of external balance. At the same time, no significant macroeconomic imbalances were building up in the economy: lending growth rate to the non-financial sector remained close to nominal GDP growth rate, though slightly lower. In the first half of 2019 the main source of uncertainty for the domestic economic conditions was the scale and length of the slowdown in Poland's main trading partners as well as the strength of its transmission to the Polish economy.

In Poland, CPI inflation rate was gradually rising in the first half of 2019 from the low level observed at the beginning of the year to 2.6%, i.e. very close to 2.5%, in June. The increase in inflation in this period was primarily due to the rise in food prices, mainly of pork – in the wake of the spread of ASF epidemic around the world – and of vegetables as a result of drought. At the same time core inflation (excluding food and energy prices) was gradually rising (on average, it stood at 1.4% in the first half of 2019), boosted by the increase in service price growth amid the continued favourable situation of Polish consumers.

In view of the above conditions, in particular, the continued favourable economic conditions amid moderate price growth and the absence of macroeconomic imbalances, the Council kept the NBP interest rates unchanged in the first half of 2019, including the reference rate at 1.5%. This decision was also warranted by the forecasts, including the March inflation and GDP projections, which pointed to a gradual slowdown in GDP growth in the subsequent quarters amid moderate inflation, which was to run close to the inflation target over the monetary policy transmission horizon.

In the second half of 2019, global economic activity growth rate remained low, and was accompanied by a deterioration in the global economic outlook. In the euro area, the economic conditions in industry remained weak, and towards the end of the year the service sector started to see signs of deteriorating sentiment. A particularly unfavourable situation persisted in Germany, where the fall in industrial output in the second half of 2019 was accompanied by signs of slowing activity in the service sector and a fall in employment growth. In the United States, the economic situation continued to be relatively favourable compared to other advanced economies; however, in the second half of 2019, the growth rate of economic activity in the United States – as well as in China – declined somewhat compared to the first half of the year.

Against the backdrop of still subdued economic conditions in many economies, global inflation remained moderate in the second half of 2019, despite further growth in food prices, including of pork as a result of the spread of the ASF epidemic. In the euro area, HICP inflation remained low in the second half of 2019 (1.0% on average), despite a slight increase in core inflation towards the end of the year (in the second half of 2019 it ran at 1.1%, on average).

The deterioration in the global economic outlook prompted the major central banks to loosen monetary policy in the second half of 2019. The ECB cut its deposit rate to a more negative level (-0.50%), restarted its asset purchase programme, and once again extended the previously signalled period of keeping interest rates at the current level. At the same time, the Fed cut interest rates three times in the second half of 2019 (the range for the Fed funds rate was lowered by a total of 0.75 percentage points to 1.50-1.75%) and, in response to disturbances in the US money market, it began purchasing Treasury bills and launched additional repo operations.

The loosening of monetary policy by the major central banks was conducive to a further rise in share prices, which in some developed markets reached record levels. This was accompanied by a stabilisation of yields on long-term bonds in many economies, including in Poland, at very low levels. At the same time, the exchange rates of currencies of emerging market economies, including of the zloty, remained relatively stable against the US dollar.

In Poland, the favourable economic conditions continued in the second half of 2019, although GDP growth declined in the wake of the slowdown in the external environment of the Polish economy (GDP growth in Poland was 3.6% in the second half of 2019). Consumer demand remained the main driver of growth, and continued to be supported by the favourable situation of employees in the labour market, strong consumer confidence and disbursement of social benefits. At the same time, real consumption growth in 2019 Q4 declined somewhat, which may have been due to a certain deterioration in household sentiment and higher price growth than at the beginning of 2019. This was accompanied by a slight decline in employment growth in the enterprise sector along with relatively stable nominal wage growth. Investment also continued to grow in the second half of 2019, although at a slower pace. This was due to a decrease in public investment, resulting mainly from the fall in investment expenditure of local government units after its robust growth in 2018. This was due, among others, to the implementation of numerous investment projects before the local government elections. At the same time, corporate investment continued to grow. Growth in lending to the non-financial sector remained relatively stable and ran below nominal GDP growth. As a result the ratio of non-financial sector debt to GDP declined to approximately 50%.

Amid a weakening of global trade, Polish import and export growth rates decreased once again. At the same time, thanks to the geographical diversification of the recipients of Polish products, export growth rate continued to exceed import growth rate and the positive contribution of net exports to GDP growth increased. As a result, the balance of the current account remained positive. At the same time, uncertainty remained about the strength and duration of the impact of the slowdown in Poland's main trading partners on the economic situation in Poland.

During most of the second half of 2019 price growth rate in Poland was running close to 2.5% (inflation was at 2.8% on average in the second half of 2019). In December, inflation rose to 3.4%, which was mainly the result of supply-side and regulatory factors. Price growth was therefore largely driven by factors beyond the direct impact of domestic monetary policy, whose effects on inflation was judged to be temporary. Inflation was increased, in particular, by the limited supply of pork around the world due to the spread of the ASF epidemic, which translated into higher growth in prices of unprocessed food. Annual growth in fuel prices also rose in December, which was the result of the base effect (reflecting the significant fall in global oil prices at the end of 2018 and their stabilisation in the second half of 2019). At the same time, growth in administered prices – including waste disposal fees – increased, which, along with the continued robust domestic economic conditions, contributed to an increase in core inflation (in December core inflation stood at 3.1%, while it was running at an average of 2.5% in the second half of the year).

In view of the information incoming in the second half of 2019, the Council kept the NBP interest rates unchanged, including the reference rate at 1.5%. In the assessment of the Council, the stabilisation of interest rates was warranted by continued favourable economic conditions amid heightened uncertainty about the scale and duration of the slowdown abroad as well as its impact on the Polish economy. At the same time, for most of the analysed period inflation remained at a moderate level. Its increase in December 2019 as well as the forecast that it would remain at an elevated level in 2020 Q1 were the result of supply-side and regulatory factors, i.e. factors beyond the direct impact of domestic monetary policy. In addition, the forecasts indicated that after the impact of these factors faded, inflation would decrease to run close to the NBP inflation target over the monetary policy transmission horizon.

3. Monetary policy instruments in 2019

In 2019, NBP employed the range of instruments adopted by the Monetary Policy Council in the *Monetary Policy Guidelines for 2019*.

Liquidity of the banking sector in 2019

In 2019, NBP pursued monetary policy amid a liquidity surplus prevailing in the banking sector.[2] The level of excess liquidity averaged PLN 81,518 million,[3] and was PLN 8,648 million, i.e. 9.6%, lower than in 2018.

The average level of surplus liquidity in December 2019 stood at PLN 86,330 million and was PLN 295 million (0.3%) lower than in December 2018.

The key factors affecting banking sector liquidity in 2019 were changes in the level of currency in circulation and foreign currency transactions conducted between NBP and the Ministry of Finance. The first of the above-mentioned factors caused a decline of PLN 20,872 million in banking sector liquidity over the year. On the other hand, the surplus of foreign currency purchases by NBP over their sale increased the liquidity by an average of PLN 29,933 million.

NBP interest rates

NBP interest rates were the key instrument of monetary policy in 2019.

By determining the yield on open market operations, the NBP reference rate influenced the level of short-term market interest rates.

The range of fluctuations of interbank overnight interest rates was determined by the NBP deposit and lombard rates.

Open market operations

In 2019, the operational target of the NBP monetary policy was to keep the POLONIA rate[4] close to the NBP reference rate. This was achieved mainly by means of open market operations, carried out on the initiative of the central bank. The central bank employed these instruments to manage the liquidity of the banking sector. The implementation of the operational target of monetary policy was supported by the required reserve system and the standing facilities provided by the central bank.

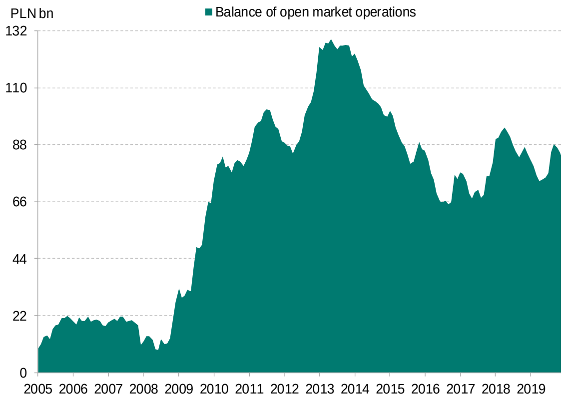
[2] The liquidity surplus of the banking sector are the funds held by the banking sector in excess of the required reserve. Liquidity surplus is measured by the combined balance of the NBP open market operations and standing facility operations.

[3] During the required reserve maintenance period.

[4] The POLONIA rate (Polish Overnight Index Average) is determined as the average (weighted by the volume of the individual transactions) of the interest rates on unsecured interbank deposits concluded for the "overnight" term on a given working day until 4.30 p.m.

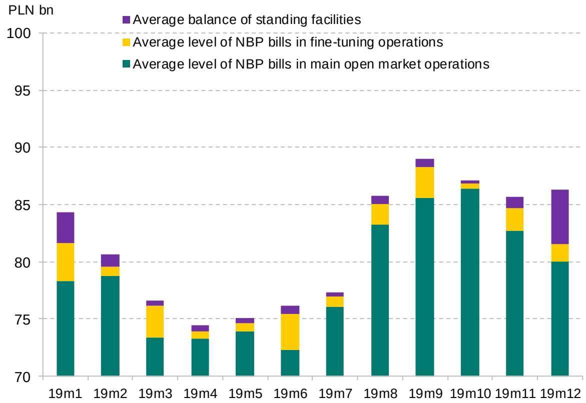
By using the main open market operations, the central bank strived to ensure balanced liquidity conditions in the banking sector. At the same time, the yields on the individual operations, equal to the NBP reference rate at the date of the operation, had a direct impact on the cost of money determined in the interbank market (including the POLONIA rate).

Figure 1 Average monthly balance of open market operations 2005-2019



Source: NBP data.

Figure 2 Liquidity absorbing instruments in the respective months of 2019



Source: NBP data.

In 2019, the main open market operations were carried out on a regular weekly basis, in the form of issuance of NBP bills usually with a 7-day maturity.[5] By using the main open market operations, the central bank absorbed most of the surplus liquidity in the banking sector. In 2019, the average volume of the NBP bills issued within the main open market operations amounted to PLN 78,662 million and was PLN 8,475 million lower than observed in 2018.

Apart from the main open market operations, in 2019 NBP also conducted fine-tuning open market operations, which played a complementary role in implementing the operational target of monetary policy. The premise for employing them was the central bank's intention to ensure conditions in the interbank market which would support the implementation of the operational target of monetary policy. Yields on the individual fine-tuning operations were equal to the NBP reference rate, and they affected the price of money in the interbank market in a similar manner to the main operations.

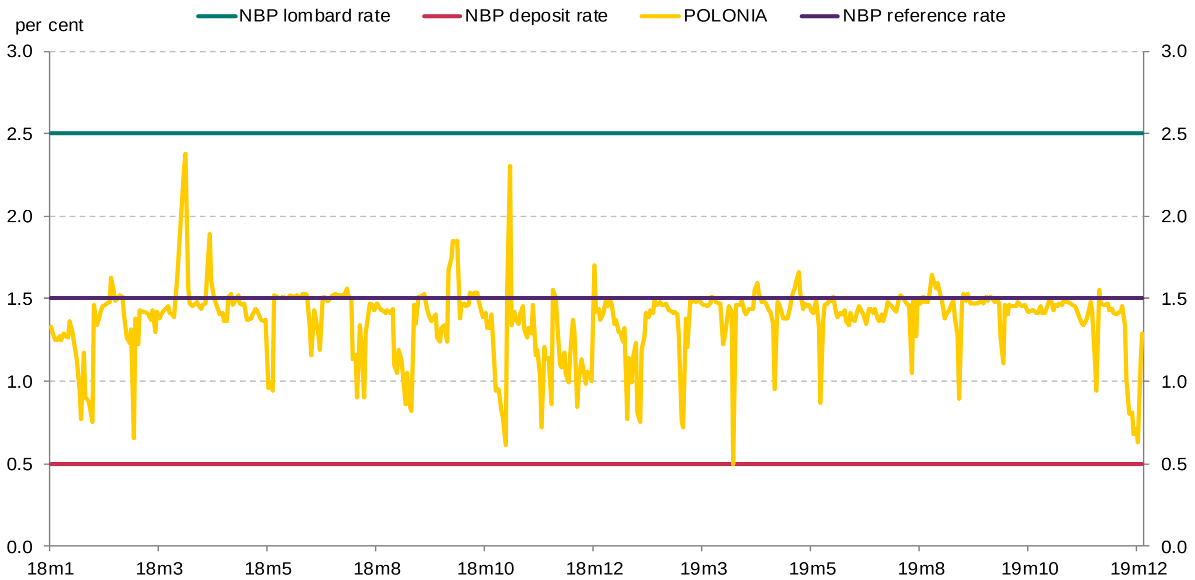
In 2019, NBP carried out 12 fine-tuning operations on the last day of the required reserve maintenance periods. In addition, the central bank conducted 4 fine-tuning operations within the required reserve maintenance period. Under the fine-tuning operations, NBP bills were issued with maturities of 1, 2 and 3 days. The average size of this category of operations in 2019 amounted to PLN 1,732 million and was PLN 73 million higher than in 2018.

In 2019, the average absolute deviation of the POLONIA rate from the NBP reference rate stood at 14 bps, compared with 21 bps in 2018.[6]

[5] Exceptions were the operations conducted on 26 April and 25 October (6-day maturity) and on 2 May and 31 October (8-day maturity).

[6] The quoted index has been computed as the average absolute daily deviation of the POLONIA rate from the NBP reference rate (the average module of the differential) based on a 365-day year.

Figure 3 NBP interest rates and the POLONIA rate in 2018-2019



Source: NBP data.

Reserve requirement

The required reserve system supported the implementation of the operational target of monetary policy, thus contributing to the stability of short-term market interest rates. The averaged character of the required reserve system enabled entities to decide on the amount of holdings accumulated at the central bank in the respective days of the required reserve maintenance period, provided that the average holdings at NBP were at least equal to the required reserve level. At the same time, the obligation to maintain the required reserve limited the scale of the NBP open market operations necessary to absorb the excess liquidity prevailing in the banking sector in 2019.

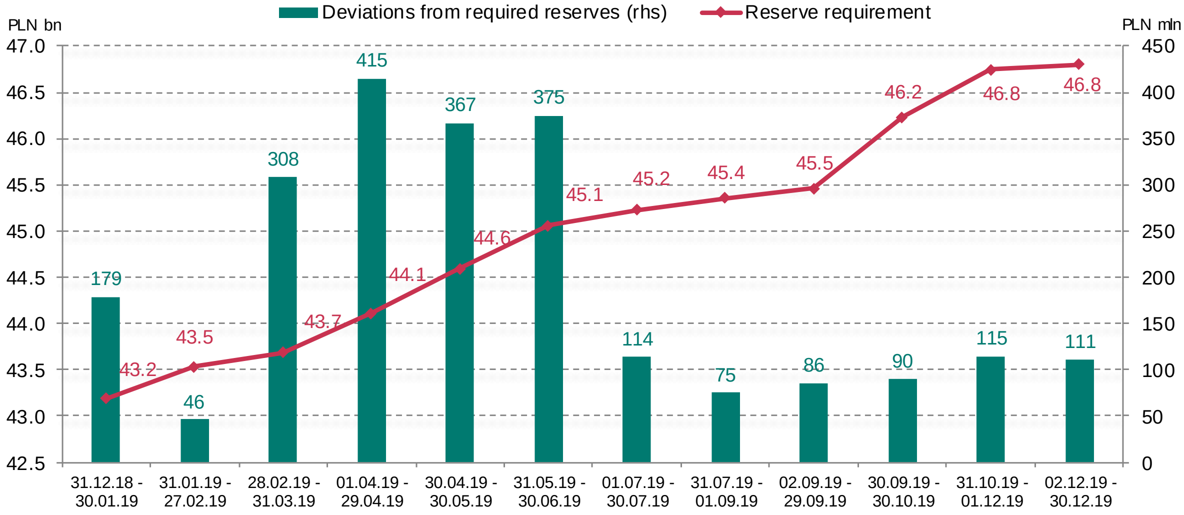
In 2019, the following entities were subject to the reserve requirement: banks, branches of credit institutions, branches of foreign banks operating in Poland, credit unions and the National Credit Union.

In 2019, the basic reserve requirement ratio amounted to 3.5% on all liabilities constituting the basis for the required reserve computation, except for funds received from the sale of securities in repo and sell-buy-back transactions, and funds obtained for the term of 2 years or more, on which the reserve requirement ratio stood at 0.0%.

The remuneration on the required reserve funds was 0.5% in 2019.

The amount of required reserves as at 31 December 2019 stood at PLN 46,845 million, including the required reserve of commercial banks and cooperative banks of PLN 46,630 million and the required reserves of credit unions and the National Credit Union of PLN 215 million. The total amount of the required reserve was PLN 3,651 million higher than on 31 December 2018, which represents an increase of 8.5%.

Figure 4 Changes in required reserve level and deviations from the reserve requirement in 2019



Source: NBP data.

The main factor responsible for the upward change in the discussed item in 2019 was the rising deposits of the banking sector, on which the required reserve was calculated. A factor with a downward effect on the required reserve levels was the exemption by the NBP Management Board of 4 commercial banks and 2 cooperative banks from the obligation to maintain the required reserve.

In all the required reserve maintenance periods of 2019, entities' average holdings at NBP remained slightly above the required level. The average funds in excess of the required reserve holdings in 2019 amounted to PLN 190 million, i.e. 0.42% of the average level of the required reserves. At the same time, there were 3 instances of failure to maintain the required reserve level by 3 commercial banks.

Standing facilities

Standing facilities (overnight deposit and lombard credit) acted as an instrument for stabilising the level of liquidity in the banking sector and the scale of the fluctuations of the interbank market rates. These operations were conducted at the initiative of banks, which used them to supplement their liquidity needs for the term of one day, or to place surplus funds with NBP for the same period.

The interest rate of lombard credit, setting the maximum price of borrowing money at NBP, determined the ceiling of overnight rate fluctuations in the interbank market. The overnight deposit rate, in turn, provided the floor for these fluctuations.

In 2019, like in previous years, banks used lombard credit only occasionally. The total drawing on this credit in 2019 was PLN 7.6 million, and was over 7 times lower than the amount drawn in 2018 (PLN 57.4 million). The average daily use of lombard credit stood at PLN 0.02 million (compared to PLN 0.2 million in 2018).

In 2019, banks placed overnight deposits totalling PLN 410,477.9 million at NBP (calculated for the period of their holding). This amount was 17.5% lower than the deposits lodged in the previous year. The average daily level of overnight deposits stood at PLN 1,124.6 million compared to PLN 1,370.4

million in 2018. The highest amounts were lodged in the form of overnight deposits in the last days of the required reserve maintenance periods.

Foreign exchange swaps

By using a foreign exchange swap, NBP may purchase (or sell) the Polish zloty against foreign currency in the spot market, with a simultaneous sale (repurchase) in a fixed-date forward transaction.

In 2019, the central bank did not conduct any such operations.

Foreign exchange interventions

Under the existing monetary policy strategy, NBP may purchase or sell foreign currency in the foreign currency market against the Polish zloty.

In 2019, the central bank did not conduct any such operations.

Appendix 1. Selected macroeconomic and financial data

Table 1 GDP and its components

	2019		2011	2012	2013	2014	2015	2016	2017	2018	2019	2019			
	Current prices (PLN bn)	per cent of GDP	Annual growth at the previous year prices (in per cent)												
												Q1	Q2	Q3	Q4
GDP	2273.6	100.0	5.0	1.6	1.4	3.3	3.8	3.1	4.9	5.3	4.1	4.8	4.6	4.0	3.2
Domestic demand	2154.0	94.7	4.2	-0.5	-0.6	4.8	3.3	2.3	4.9	5.6	3.0	3.3	4.7	3.3	1.3
Consumption	1708.9	75.2	2.0	0.5	0.8	2.8	2.8	3.5	4.1	4.3	4.1	4.6	4.3	4.2	3.2
Household consumption	1283.4	56.5	3.3	0.8	0.3	2.6	3.0	3.9	4.5	4.2	3.9	3.9	4.4	3.9	3.3
Capital formation	445.1	19.6	12.8	-3.9	-5.8	12.8	4.9	-2.0	7.9	10.6	-0.7	-3.3	6.3	-0.4	-3.6
Gross fixed capital formation	422.8	18.6	8.8	-1.8	-1.1	10.0	6.1	-8.2	4.0	9.4	7.2	11.6	8.8	4.6	6.1
Exports	1267.5	55.8	7.9	4.6	6.1	6.7	7.7	8.8	9.5	7.0	4.7	8.5	3.6	4.9	2.0
Imports	1148.0	50.5	5.8	-0.3	1.7	10.0	6.6	7.6	9.8	7.6	2.7	5.9	3.6	3.5	-2.0
Value added	1998.1	87.9	5.0	1.7	1.5	3.3	3.7	3.0	4.8	5.3	4.1	4.7	4.6	4.0	3.2
Industry	501.7	22.1	7.9	2.8	0.9	4.5	3.8	3.9	2.5	5.2	4.2	6.1	4.3	3.3	3.3
Construction	153.7	6.8	13.5	-4.0	-5.0	9.0	6.4	-8.5	6.8	11.7	3.0	8.8	4.4	3.6	-1.5
Market services and agriculture	1053.9	46.4	3.4	2.6	2.9	2.3	3.7	4.9	6.3	5.4	4.2	3.7	5.0	4.4	3.7
Non-market services	288.8	12.7	1.1	0.1	0.9	1.7	2.0	1.3	2.4	2.0	4.0	4.2	3.8	3.7	4.3
			Contribution to annual GDP growth at the previous year prices (in percentage points)												
Domestic demand	-	-	4.3	-0.5	-0.6	4.7	3.2	2.3	4.6	5.3	2.9	3.2	4.4	3.1	1.2
Consumption	-	-	1.6	0.4	0.6	2.2	2.2	2.7	3.1	3.2	3.0	3.7	3.3	3.2	2.2
Household consumption	-	-	2.0	0.5	0.2	1.5	1.8	2.3	2.6	2.4	2.2	2.4	2.5	2.3	1.6
Capital formation	-	-	2.7	-0.9	-1.2	2.4	1.0	-0.4	1.5	2.1	-0.1	-0.5	1.1	-0.1	-1.0
Gross fixed capital formation	-	-	1.8	-0.4	-0.2	1.9	1.2	-1.7	0.7	1.6	1.3	1.5	1.4	0.8	1.5
Net exports	-	-	0.7	2.1	2.0	-1.4	0.6	0.8	0.3	0.0	1.2	1.6	0.2	0.9	2.0
			Contribution to annual value added growth at the previous year prices (in percentage points)												
Industry	-	-	2.0	0.7	0.2	1.1	1.0	1.0	0.7	1.3	1.1	1.6	1.0	0.7	0.9
Construction	-	-	1.1	-0.3	-0.4	0.7	0.5	-0.7	0.5	0.8	0.2	0.4	0.4	0.3	-0.1
Market services and agriculture	-	-	1.7	1.3	1.5	1.2	1.9	2.5	3.3	2.9	2.2	1.9	2.7	2.4	1.8
Non-market services	-	-	0.2	0.0	0.1	0.3	0.3	0.2	0.4	0.3	0.6	0.7	0.5	0.5	0.6

Source: GUS data, NBP calculations.

Market services and agriculture *cover categories A, G-N and R-U of PKD classification (Polish equivalent of NACE): agriculture, trade, transportation, accommodation and catering, information and communication, financial and insurance activity, real estate activities, professional, scientific and technical activities, administrative and support service activities, arts, entertainment and recreation, other service activities, activities of households, and activities of extraterritorial organisations and bodies.*

Non-market services *comprise categories O, P and Q of PKD classification: public administration and defence, compulsory social security, education, human health and social work activities. Contributions to GDP growth and value added growth may not add up to overall GDP growth and value added growth due to rounding.*

Table 2 Annual growth in consumer goods and services prices and the contribution of the main price categories to CPI

	Weights in 2019, per cent	Change (y/y, per cent) 2019 I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	2019 average	2018 average
CPI	100.0	0.7	1.2	1.7	2.2	2.4	2.6	2.9	2.9	2.6	2.5	2.6	3.4	2.3	1.6
Core inflation	58.9	0.8	1.0	1.4	1.7	1.7	1.9	2.2	2.2	2.4	2.4	2.6	3.1	2.0	0.7
Goods	31.3	0.0	0.0	0.3	0.2	0.4	0.4	0.6	0.4	0.4	0.5	0.4	0.7	0.4	0.0
Services	27.6	1.7	2.2	2.6	3.5	3.1	3.7	4.0	4.1	4.6	4.6	5.1	5.9	3.8	1.5
Food and non-alcoholic beverages	24.9	0.8	2.1	2.6	3.3	5.0	5.7	6.8	7.2	6.3	6.1	6.5	6.9	4.9	2.6
Processed	13.6	1.6	2.2	2.5	2.2	2.7	2.8	2.9	2.7	2.8	2.7	2.6	2.8	2.5	3.0
Unprocessed	11.2	0.0	2.0	2.7	4.6	7.8	9.2	11.5	12.8	10.7	10.3	11.3	12.0	7.8	2.1
Meat	6.2	-0.2	0.4	0.6	4.1	6.2	6.0	6.7	6.8	6.8	8.0	9.2	12.8	5.6	1.7
Vegetables	2.6	8.1	15.8	16.6	16.0	22.6	27.3	32.4	34.8	23.9	16.3	16.0	12.3	19.8	4.7
Energy	16.2	0.2	0.7	1.4	2.2	0.8	0.4	-0.4	-1.1	-2.0	-2.8	-3.0	-1.2	-0.4	3.6
Energy carriers	10.8	-1.8	-1.6	-1.3	-0.8	-0.8	-0.9	-1.0	-1.4	-1.6	-1.7	-1.8	-1.8	-1.4	1.6
Fuels	5.4	4.7	5.8	7.3	8.6	4.1	3.0	0.7	-0.4	-2.7	-4.8	-5.4	0.0	1.6	7.8
According to COICOP															
Food and non-alcoholic beverages	24.9	0.8	2.1	2.6	3.3	5.0	5.7	6.8	7.2	6.3	6.1	6.5	6.9	4.9	2.6
Alcoholic beverages and tobacco products	6.4	1.3	1.4	1.5	1.1	1.4	1.5	1.2	1.3	1.0	1.3	1.3	1.6	1.3	1.5
Clothing and footwear	4.9	-3.0	-3.2	-2.4	-2.2	-1.9	-1.6	-1.5	-1.4	-1.2	-1.7	-1.8	-1.2	-1.9	-3.6
Home maintenance and energy carriers	19.2	0.2	0.6	1.0	1.6	1.6	1.7	2.0	1.9	2.0	1.9	2.0	2.0	1.5	2.1
Home equipment and household maintenance	5.7	0.9	0.6	1.1	1.0	1.1	0.7	0.8	0.7	0.5	0.8	0.3	0.4	0.7	0.7
Health	5.1	2.6	2.6	2.9	3.0	3.1	3.1	3.7	3.6	3.9	4.0	3.1	3.2	3.2	2.0
Transportation	10.3	1.9	2.5	3.5	4.8	1.7	1.4	0.3	-0.2	-1.7	-3.0	-3.4	0.5	0.7	4.2
Telecommunications	4.2	-4.6	-2.4	-2.5	-1.9	-2.6	-1.5	-1.1	-0.7	0.9	1.0	3.7	4.3	-0.7	-1.8
Recreation and culture	6.5	1.2	1.3	1.9	2.4	2.9	3.4	3.0	2.8	2.6	2.6	3.6	3.6	2.6	1.3
Education	1.1	3.1	3.1	3.1	3.0	3.0	3.1	3.1	3.1	4.4	4.7	4.6	4.6	3.6	2.4
Restaurants and hotels	6.2	3.3	3.4	3.6	3.8	4.1	4.1	4.4	4.7	5.2	5.3	5.3	5.4	4.4	3.0
Other goods and services	5.6	0.9	0.4	0.7	1.5	1.2	1.4	1.9	0.7	1.3	1.7	1.5	3.2	1.4	-0.5
	Weights in 2019, per cent	Contribution to CPI growth (in percentage points) 2019 I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	2019 average	2018 average
CPI	100.0	0.7	1.2	1.7	2.2	2.4	2.6	2.9	2.9	2.6	2.5	2.6	3.4	2.3	1.6
Core inflation	58.9	0.5	0.6	0.8	1.0	1.0	1.1	1.3	1.3	1.4	1.4	1.5	1.8	1.1	0.4
Goods	31.3	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.1	0.2	0.1	0.0
Services	27.6	0.5	0.6	0.7	1.0	0.9	1.0	1.1	1.2	1.3	1.3	1.4	1.6	1.0	0.4
Food and non-alcoholic beverages	24.9	0.2	0.5	0.7	0.8	1.3	1.4	1.7	1.8	1.6	1.5	1.6	1.7	1.2	0.6
Processed	13.6	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.4
Unprocessed	11.2	0.0	0.2	0.3	0.5	0.9	1.0	1.3	1.4	1.2	1.1	1.2	1.3	0.9	0.2
Meat	6.2	0.0	0.0	0.0	0.3	0.4	0.4	0.4	0.4	0.4	0.5	0.6	0.8	0.3	0.1
Vegetables	2.6	0.2	0.4	0.4	0.4	0.6	0.7	0.8	0.8	0.6	0.4	0.4	0.4	0.5	0.1
Energy	16.2	0.0	0.1	0.2	0.4	0.1	0.1	-0.1	-0.2	-0.3	-0.5	-0.5	-0.2	-0.1	0.6
Energy carriers	10.8	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	0.2
Fuels	5.4	0.2	0.3	0.4	0.4	0.2	0.2	0.0	0.0	-0.2	-0.3	-0.3	0.0	0.1	0.4
According to COICOP															
Food and non-alcoholic beverages	24.9	0.2	0.5	0.7	0.8	1.3	1.4	1.7	1.8	1.6	1.5	1.6	1.7	1.2	0.6
Alcoholic beverages and tobacco products	6.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Clothing and footwear	4.9	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2
Home maintenance and energy	19.2	0.0	0.1	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.4
Home equipment and household maintenance	5.7	0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Health	5.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Transportation	10.3	0.2	0.2	0.3	0.5	0.2	0.2	0.0	0.0	-0.2	-0.3	-0.4	0.1	0.1	0.4
Telecommunications	4.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.1	0.2	0.0	-0.1
Recreation and culture	6.5	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Education	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0
Restaurants and hotels	6.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2
Other goods and services	5.6	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.2	0.1	0.0

Source: GUS data, NBP calculations.

The core inflation quoted in the table denotes CPI inflation excluding prices of food and energy.

Table 3 Balance of payments (PLN million)

Bilans płatniczy	2011	2012	2013	2014	2015	2016	2017	2018	2019
Current account	-81,394	-60,368	-20,923	-35,536	-10,102	-9,662	1,438	-21,711	10,623
Balance of trade in goods	-54,790	-34,128	-1,345	-13,634	9,326	12,834	6,100	-20,373	10,360
Balance of services	21,073	25,145	32,070	37,922	45,610	60,942	76,390	92,274	108,192
Balance of primary income	-50,811	-50,765	-49,900	-58,249	-61,408	-77,229	-80,471	-87,523	-100,121
Balance of secondary income	3,134	-620	-1,748	-1,575	-3,630	-6,209	-581	-6,089	-7,808
Capital account	30,618	35,711	37,857	41,990	42,510	19,471	25,002	44,605	45,461
Financial account	-80,227	-37,276	-18,676	-19,557	2,296	6,000	-9,861	7,222	38,070
Direct investment balance	-40,631	-19,692	-13,311	-40,728	-38,666	-16,594	-28,833	-52,881	-42,980
Portfolio investment balance	-50,222	-64,060	-398	7,639	11,865	-14,712	-17,940	15,833	47,480
Other investment balance	-7,882	18,847	-5,781	11,654	29,644	-52,724	71,720	22,549	-1,635
Derivative financial instruments	525	-8,942	-2,200	-62	-3,663	762	-4,256	-4,841	-4,353
Official reserve assets	17,983	36,571	3,014	1,940	3,116	89,268	-30,552	26,562	39,558
Balance of errors and omissions	-29,451	-12,619	-35,610	-26,011	-30,112	-3,809	-36,301	-15,672	-18,014

Source: NBP data.

Table 4 Selected external stability indicators

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Current account balance/GDP (per cent)	-5.2	-3.7	-1.3	-2.1	-0.6	-0.5	0.1	-1.0	0.5
Current and capital account balance/GDP (per cent)	-3.2	-1.5	1.0	0.4	1.8	0.5	1.3	1.1	2.5
Balance of trade in goods and services/GDP (per cent)	-2.2	-0.6	1.9	1.4	3.1	4.0	4.1	3.4	5.2
Official reserve assets in terms of monthly imports of goods and services	5.7	5.5	5.2	5.3	5.3	6.4	4.7	4.8	5.1
Gross foreign debt/GDP (per cent)	70.7	70.2	69.8	72.7	71.8	76.4	67.0	63.8	58.4
Net international investment position/GDP (per cent)	-62.4	-65.3	-68.9	-69.1	-62.1	-61.6	-61.2	-55.6	-49.8

Source: NBP and GUS data, NBP calculations.

Table 5 M3 (stock at the end of each year, PLN million)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
M3	881,496.3	921,412.5	978,908.2	1,059,015.3	1,154,992.6	1,265,661.7	1,324,368.6	1,446,092.6	1,565,639.8
Repos	9,575.7	13,047.2	12,277.5	10,350.3	7,267.1	6,238.6	6,478.3	11,239.6	6,809.4
Debt securities issued with maturity up to 2 years	7,850.4	8,028.6	6,285.8	4,112.0	2,466.7	3,211.1	5,042.9	6,619.8	6,187.4
Money market fund shares	324.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
M2	863,745.5	900,336.7	960,344.9	1,044,552.9	1,145,258.8	1,256,211.9	1,312,847.3	1,428,233.2	1,552,642.9
Deposits and other liabilities with agreed maturity up to 2 years	395,692.9	415,523.7	404,509.6	438,270.2	453,134.4	440,907.8	406,472.7	415,880.1	397,775.6
Households	243,076.5	278,114.3	263,776.6	290,770.2	304,873.9	302,916.8	279,206.7	282,754.6	277,564.2
Other financial corporations	26,461.3	36,466.5	34,038.2	33,350.1	30,516.0	23,243.6	22,189.7	24,488.8	26,219.3
Non-financial corporations	113,821.1	88,526.2	94,028.7	101,639.4	103,365.4	99,234.4	88,269.4	87,585.7	82,834.0
Non-profit institutions serving households	6,588.1	7,106.3	6,888.7	6,800.0	7,022.0	7,251.0	7,515.2	7,778.5	7,375.3
Local government	4,706.7	4,708.1	4,644.8	4,526.3	5,633.5	5,886.8	6,046.3	4,562.1	3,242.8
Social security funds	1,039.2	602.3	1,132.7	1,184.4	1,723.7	2,375.3	3,245.3	8,710.3	540.0
M1	468,052.6	484,813.0	555,835.3	606,282.7	692,124.4	815,304.0	906,374.6	1,012,353.1	1,154,867.4
Currency in circulation (excluding MFIs' vault cash)	101,848.6	102,470.5	114,403.2	130,029.9	149,715.6	174,401.2	184,486.4	203,212.5	224,069.6
Overnight deposits and other liabilities	366,204.0	382,342.5	441,432.1	476,252.7	542,408.9	640,902.8	721,888.2	809,140.6	930,797.8
Households	234,934.3	236,791.4	279,831.7	300,786.4	341,115.2	402,000.9	453,227.5	523,307.3	603,823.1
Other financial corporations	13,903.1	15,911.6	17,664.6	18,573.9	20,302.3	25,898.5	31,589.2	32,800.5	26,065.0
Non-financial corporations	89,472.2	99,252.8	112,497.1	124,239.3	145,975.4	169,753.0	187,138.6	199,721.7	233,408.9
Non-profit institutions serving households	8,401.3	9,391.8	10,393.3	11,305.4	12,518.0	14,911.5	16,425.7	18,289.9	19,470.6
Local government	18,586.0	19,775.1	19,658.6	19,494.2	18,867.8	25,254.6	26,743.6	27,722.3	33,936.7
Social security funds	907.1	1,219.8	1,386.7	1,853.5	3,630.2	3,084.2	6,763.5	7,298.9	14,093.5

Source: NBP data.

MFIs- Monetary Financial Institutions

Table 6 M3 counterparts (stock at the end of each year, PLN million)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
External assets, net	140,162.3	169,184.6	142,994.5	172,946.6	187,102.8	234,208.5	232,528.1	290,278.0	344,764.6
External assets	405,464.1	409,939.1	388,096.0	437,357.7	451,321.7	572,727.2	483,803.7	544,418.9	590,810.5
External liabilities	265,301.8	240,754.5	245,101.5	264,411.1	264,218.9	338,518.7	251,275.6	254,140.9	246,046.0
Credit to other residents	887,890.8	910,052.1	947,800.1	1,017,017.1	1,089,010.6	1,137,243.4	1,175,788.5	1,264,010.1	1,325,100.5
Loans and other claims	861,743.2	872,435.9	904,029.1	963,655.2	1,029,144.7	1,076,440.2	1,113,993.1	1,197,892.5	1,259,757.4
Households	536,970.6	538,120.1	562,379.9	593,272.7	632,523.3	665,062.0	676,361.6	723,232.7	766,545.2
Other financial corporations	27,291.4	34,566.2	42,992.1	53,346.3	58,344.0	58,546.2	65,781.9	74,182.1	83,724.1
Non-financial corporations	253,458.6	256,982.4	259,048.9	275,774.0	297,950.1	314,533.1	333,362.2	358,589.3	366,116.6
Non-profit institutions serving households	4,177.3	4,846.9	5,306.5	5,682.8	6,067.6	6,484.7	6,946.3	7,296.2	7,621.0
Local government	39,001.6	37,080.0	34,301.5	35,579.3	34,259.5	31,814.1	31,541.1	34,592.2	35,750.5
Social security funds	843.7	840.2	0.2	0.2	0.2	0.1	0.1	0.0	0.0
Debt securities	19,043.0	28,681.1	33,385.0	41,985.3	47,228.9	48,019.9	47,501.7	47,609.7	46,938.5
Other financial corporations	694.6	1,004.9	761.0	1,713.1	2,358.9	3,958.6	3,496.3	3,499.9	3,164.5
Non-financial corporations	7,985.7	13,437.9	15,541.6	22,587.8	26,099.7	25,423.4	24,941.0	22,583.8	19,665.4
Local government	10,362.6	14,238.3	17,082.4	17,684.4	18,770.3	18,637.8	19,064.4	21,526.0	24,108.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity and non-MMF investment fund shares or units	7,104.6	8,935.1	10,386.0	11,376.6	12,637.0	12,783.4	14,293.7	18,507.9	18,404.6
Other financial corporations	4,496.0	5,914.9	6,554.1	8,970.8	10,381.5	10,601.5	12,070.3	15,675.8	15,857.0
Non-financial corporations	2,608.6	3,020.2	3,831.9	2,405.8	2,255.5	2,181.9	2,222.5	2,831.0	2,546.8
Other	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	0.8
Credit to central government, net	121,624.2	108,380.1	145,336.6	168,872.5	201,343.4	253,371.3	268,824.0	275,697.1	310,226.3
Credit to central government	167,531.4	160,909.4	182,792.4	224,408.6	239,787.4	311,159.4	321,398.1	346,352.2	383,746.5
Loans	964.3	809.8	780.6	701.4	1,141.7	961.4	1,010.9	1,042.6	1,127.2
Debt securities	130,577.6	119,192.3	138,615.3	180,803.9	193,333.2	259,586.2	267,215.9	293,297.0	331,138.5
Other	35,989.5	40,907.3	43,396.5	42,903.3	45,312.5	50,611.9	53,171.3	52,012.6	51,480.8
Deposits of central government	45,907.3	52,529.3	37,455.8	55,536.1	38,444.0	57,788.1	52,574.1	70,655.1	73,520.2
Longer-term financial liabilities	299,094.8	295,938.4	293,509.9	336,408.6	359,605.4	389,983.8	374,962.7	407,306.0	438,524.0
Deposits and other liabilities with agreed maturity over 2 years	9,043.8	10,843.9	17,153.6	20,512.2	22,001.5	25,188.6	25,783.7	25,675.8	28,812.6
Households	4,065.0	4,571.5	10,066.8	13,756.4	16,552.1	19,838.8	21,344.1	21,836.1	25,362.1
Other financial corporations	3,007.2	4,103.6	5,485.3	5,851.1	4,623.8	4,452.1	3,482.7	2,938.6	2,540.8
Non-financial corporations	1,837.9	2,055.1	1,492.3	812.9	732.8	776.5	788.8	772.3	783.8
Non-profit institutions serving households	123.0	95.5	78.8	64.4	68.1	102.1	144.1	100.3	100.3
Local government	8.0	18.2	30.4	27.3	24.7	19.0	23.9	28.6	25.6
Social security funds	2.8	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Debt securities issued with maturity over 2 years	30,733.8	35,870.8	40,874.5	40,421.7	43,878.8	53,781.8	69,762.3	72,267.2	78,383.0
Capital and reserves	259,317.2	249,223.6	235,481.7	275,474.7	293,725.2	311,013.4	279,416.8	309,363.1	331,328.4
Fixed assets (excluding fixed financial assets)	42,662.6	45,159.9	48,473.7	50,382.0	51,475.1	52,609.9	53,221.1	54,777.4	62,007.1
Other items, net	-11,748.8	-15,425.9	-12,186.8	-13,794.3	-14,333.9	-21,787.7	-31,030.5	-31,363.9	-37,934.7

Source: NBP data.

MMF-Money Market Fund

Appendix 2. Minutes of the Monetary Policy Council decision-making meetings

Minutes of the Monetary Policy Council decision-making meeting held on 9 January 2019

During the meeting, the Council noted that global economic conditions have remained favourable so far, although incoming data suggest their weakening in some economies, and higher uncertainty about the scale of the expected global slowdown. It was pointed out that in the euro area, following a decline in GDP growth in 2018 Q3, some survey indicators continued to deteriorate. In particular, a marked weakening was visible in the activity and survey indicators for Germany, which is Poland's main trading partner. It was emphasised that in the United States, economic conditions were still very strong in 2018 Q4, yet 2019 forecasts point to slower growth also in this economy. It was observed that in China activity growth has been gradually slowing down as well.

It was pointed out that heightened uncertainty about the scale of weakening of the global outlook continued to have an adverse effect on some asset prices. In the last months of 2018, fears about the global economic slowdown contributed also to a decline in the prices of commodities, including oil. At the same time, it was observed that lower oil production in OPEC member states boosted oil prices somewhat at the beginning of 2019.

When analysing inflation developments abroad, it was pointed out that the marked decline in oil prices between the beginning of October and the end of December translated into lower 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 interest rates close to zero, including the deposit rate below zero. Although in 2018 the ECB terminated the net purchase of financial assets, it will continue to reinvest the funds from the maturing securities. At that point, some Council members presented the opinion that given the deteriorating economic conditions in the euro area and a downward revision of the core inflation path anticipated for the euro area, the period in which the ECB will continue to keep its policy rates very low will probably be extended. Other Council members additionally assessed that the termination of the net asset purchase programme by the ECB is an uncertainty factor for this economy. In turn, the Federal Reserve of the United States raised interest rates in December 2018. Some Council members reaffirmed their opinion that in this economy too, due to the risk of a sharper than previously expected slowdown, interest rates might not be raised further, as indicated by the softer rhetoric of the Federal Reserve representatives in this regard.

Discussing the developments in Poland’s real economy, it was underlined that incoming data are indicative of economic conditions remaining strong so far. It was noted that activity growth continued to be driven by rising consumption, albeit at a slightly slower pace than in previous quarters, fuelled by increasing employment and wages, together with very strong consumer sentiment. It was pointed out that this was accompanied by rising investment.

With regard to the outlook for domestic economic activity, it was emphasised that despite the anticipated deceleration in GDP growth, it remained relatively favourable, and the expected slowdown abroad would be the key factor adversely affecting GDP growth. At the same time, some Council members drew attention to a decline in the PMI index related to lower indicators of output and new orders, including export orders. Those Council members judged this to be a sign of higher uncertainty about future GDP growth in Poland. Some Council members pointed out that the smaller inflow of foreign employees, related, among others, to changes in Germany's immigration policy, could in the longer term have a hampering effect on Poland's output growth. Certain Council members reiterated their opinion that GDP growth in 2019 might be higher than currently forecast.

While analysing developments in the labour market, it was pointed out that the unemployment rate remained low, which at the end of 2018 was accompanied by accelerated wage growth both in the whole economy and the corporate sector. It was noted that this probably resulted from a pick-up in wage growth in the public sector, but also from the shifts in payments of bonuses in the mining sector. Certain Council members stressed that most firms covered by NBP surveys report wage growth exceeding labour productivity growth. These Council members also remarked that pay rises for the successive groups of employees in the public sector may pose a risk of faster wage growth and thus higher inflation. At the same time, some Council members assessed that higher wage growth, amid the potential weakening of external demand, may have a stabilising effect on economic conditions and support inflation at levels close to the target.

Discussing inflation developments in Poland, it was underlined that despite the relatively fast GDP growth and higher wage growth than in the previous year, the annual consumer price growth, including core inflation, was markedly lower than forecast. It was noted that in December, inflation was running below the lower limit for deviations from the inflation target. Similarly, producer price growth proved lower than forecast.

Turning to the near-term outlook for inflation, it was highlighted that this changed significantly due to the adoption at the end of 2018 of a law reducing the excise duty and transitional fee related to energy, as well as introducing compensation payments for electricity providers designed to keep electricity prices charged to end-consumers in 2019 at the level of mid-2018. It was pointed out that as a result, the rise in wholesale energy prices observed in 2018 should not feed through, either directly or indirectly, to the 2019 inflation. It was remarked that in 2019 inflation would be additionally limited by lower oil prices than earlier forecast. Yet certain Council members pointed out that the fall in global oil prices may not fully translate into a fall in domestic fuel prices due to the structure of the fuel market in Poland. Certain Council members also indicated higher than in previous quarters coal prices as a factor which might boost households' maintenance costs in 2019. However, taking into account all new information received since the previous meeting of the Council, it was assessed that inflation in 2019 might be markedly lower than could earlier be expected.

With reference to the anticipated path of price developments in the medium term, the majority of the Council members were in agreement that within the monetary policy transmission horizon inflation would remain close to the target. These Council members noted that the expected slowdown in GDP growth in the coming years, coupled with high competition in retail trade, would have a curbing effect on price growth. Other Council members pointed to the expected increase in core inflation, including service price growth, in the quarters to come, and to the risk of a substantial rise in energy prices in the future. Moreover, certain Council members indicated the recent rise in firms' and households' inflation expectations, which – should it prove lasting – may be a factor boosting inflation in the following years. Other Council members judged that inflation expectations at the end of 2018 were probably heavily influenced by debates about levels of energy prices, and so their rise could prove temporary.

Summing up the conclusions following from the analysis of the macroeconomic developments in 2018, the Council members highlighted that economic growth in Poland remained high, and inflation declined slightly compared to 2017. It was pointed out that lending to the private sector had been rising at a moderate pace, external trade had continued to post a surplus and the public sector debt to GDP ratio had probably diminished. Some Council members underlined that the declining ratio of public debt to GDP was supported not only by fiscal policies, but also by good economic conditions and a stable interest rates. Long-term inflation expectations remained anchored at the inflation target, while the annual average exchange rate of the zloty against the euro did not change in relation to 2017, despite periodic turmoil in the global financial markets. In the opinion of the Council, the data for 2018 confirm very good economic conditions in the Polish economy, accompanied by price stability and the absence of macroeconomic imbalances.

When discussing NBP monetary policy, the Council decided that interest rates should remain unchanged. In the Council's assessment, current information indicates a relatively favourable outlook for economic conditions in Poland, although a gradual slowing in GDP growth is expected in the years ahead. At the same time, it was pointed out that according to current forecasts, the annual price growth will probably increase in the coming months, however – due to the decline in oil prices and the freeze on electricity prices – the scale of this increase will be significantly smaller than that expected in the November projection. In the medium term, 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. Thus, 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, 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.

Certain Council members emphasised that currently significant uncertainty existed about developments in the CPI index in the medium term. These Council members pointed out that should incoming data indicate a significant and lasting increase in inflation expectations and wage demands translating into price pressure, which would make successive projections suggest that inflation will remain above the target in the monetary policy transmission horizon, it might be justified to consider an increase in the NBP interest rates in the coming quarters. However, these Council members pointed out that the likelihood of such a scenario had declined in recent months.

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 the 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%.

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

During the meeting, the Council noted that incoming data pointed to weaker economic conditions in some of the largest economies. At the same time, uncertainty had increased about the outlook for global activity in the coming quarters. It was noted that GDP growth in the euro area in 2019 Q4 remained low, and economic prospects for the region had slightly deteriorated. The recent weakening was particularly marked in the Germany, Poland's most important trading partner. Attention was also drawn to the continued gradual decline in activity growth in China. With regard to the United States, it was indicated that despite slower GDP growth in 2018 Q4, economic conditions in that economy remained strong.

It was pointed out that, following a sharp decline in the final quarter of 2018, oil prices had rebounded slightly since the beginning of the year. The rise in oil prices was supported by restrictions on oil production in OPEC countries, along with the continued sanctions on oil imports from Iran and Venezuela. Meanwhile, the scale of the rise in oil prices was limited by both lower current demand and the deteriorating outlook for demand for oil related to weaker global economic conditions and tensions between the United States and China.

When analysing inflation developments abroad, it was indicated that the decline in oil prices on their 2018 Q3 levels was having a downward effect on inflation in many countries. At the same time, core inflation in the environment of the Polish economy, including the euro area, was currently low.

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 rate below zero for 4,5 years. At the same time, the ECB was reinvesting funds from the maturing securities. It was pointed out that amid weaker economic conditions in the euro area and higher uncertainty about their prospects, the ECB had softened its rhetoric at its last meeting, making further decisions contingent on incoming data. Some Council members judged that the likelihood of interest rate increases in the euro area had diminished substantially. It was indicated that after raising interest rates in December 2018, the Federal Reserve of the United States was keeping them unchanged and, at the last meeting, had eased its stance regarding monetary policy prospects as well. Some Council members expressed the opinion that this economy also might not see further interest rate increases, and it was even possible that the process of balance sheet reduction by the Federal Reserve could be halted.

Discussing the developments in Poland's real economy, it was underlined that preliminary data on 2018 GDP confirmed very good performance of the Polish economy last year. The consistently high private consumption growth was highlighted, resulting in substantial increase in the level of consumption over the past two years. It was pointed out that robust economic growth last year did not entail the build-up of macroeconomic imbalances. It was noted that 2018 had seen a continuous surplus in foreign trade, with growth in lending to the non-financial sector, though higher than in 2017, remaining moderate, and annual inflation standing at 1.6%.

With regard to economic growth in 2018 Q4, it was pointed out that preliminary annual national accounts data suggested further relatively high GDP growth in that period, although slightly weaker than in the previous quarters. It was noted that activity growth in 2018 Q4 had continued to be driven by consumption, which had been rising further – albeit at a slightly slower pace than in previous quarters – fuelled by increasing employment and wages as well as very strong consumer sentiment. It was emphasised that in 2018 Q4 investment growth had also continued, although it was being hampered by the likely decline in investment outlays by local government units. It was underlined that national accounts data pointed to a positive contribution of net exports to GDP growth in 2018 Q4, despite weaker economic conditions abroad.

While discussing the outlook for economic growth, it was stressed that the recently received data pointed to a probable slowdown in 2019 Q1. The Council reiterated its assessment that – despite some weakening of the outlook for growth in the immediate environment of the Polish economy – GDP growth in Poland in the coming quarters would probably decrease only gradually, and domestic economic conditions would remain relatively favourable, although uncertainty about future GDP growth had increased in the recent period.

When analysing labour market performance, attention was drawn to a gradual decline in employment growth. In the assessment of some Council members, this could have reflected not only supply constraints, but also weaker growth in demand for labour. It was pointed out that in December wage growth in the enterprise sector had slowed, which – in the opinion of some Council members – might suggest that temporary factors had driven its prior rise. These Council members also assessed that despite the mounting wage pressure declared by enterprises, wage growth in the corporate sector should remain stable in the coming quarters, owing to firms' probably lower propensity to raise wages amid weaker external demand. The opinion was expressed that despite that, higher wage growth in the entire economy could not be ruled out, particularly if wage growth in the public sector picked up. Some Council members emphasised at that point that a potential increase in wage growth across the economy, given the expected slowdown in GDP growth, might have a stabilising effect on economic conditions.

Discussing the long-term determinants of the developments in the Polish labour market, some Council members highlighted the persistently stronger growth of labour productivity than that of real median and mode wage in the past. Certain Council members judged that such a discrepancy had resulted from the increasing participation of Polish firms in global value chains and technological progress. Other Council members observed that labour productivity growth was currently slower than real wage growth, and the occurrence of the reverse relationship in the past did not have to affect firms' current pricing policies.

Turning to inflation developments in Poland, it was pointed out that – notwithstanding relatively high economic growth and wages rising faster than in previous years – annual consumer price growth had declined in recent months and remained moderate. It was noted that lower global oil prices than in 2018 Q3 were dragging on price growth, although, as certain Council members believed, their impact on fuel prices was constrained by the structure of the fuel market in Poland. It was also indicated that inflation net of food and energy prices remained low. Certain Council members were of the opinion that the persistently low core inflation in the environment of higher wage growth than in previous years resulted from the likely slower growth of the median wage, which might have a significant impact on inflation developments.

While discussing the near-term outlook for inflation, it was underlined that according to current forecasts, annual price growth would pick up in the coming months, yet the scale of this increase would be small and markedly lower than expected in the November projection. It was noted that in line with these forecasts, average inflation this year would be lower than 2.5%. Certain Council members remarked that in the coming months, rising food prices would probably have a boosting effect on inflation, with the scale of the increase remaining an uncertainty factor for price developments. Some Council members were of the opinion that price growth might be weaker than currently forecast due to – as they expected – the absence of a marked pick-up in core inflation amid weakening economic growth. Certain Council members, however, expressed the view that rising production costs might contribute to higher inflation as the relatively low, in their opinion, profitability in some branches could incline firms to raise prices. Other Council members, in turn, pointed out that profitability in the corporate sector remained close to that observed in previous years, and the propensity of firms to raise prices would be mitigated by strong competition.

With reference to the anticipated path of price developments in the medium term, it was indicated that in the monetary policy transmission horizon inflation would remain close to the target. It was pointed out that the expected slowdown in GDP growth in the coming years would have a dampening effect on inflation. It was also indicated that after a temporary rise in December, household inflation expectations had declined again. Some Council members assessed that the increase in inflation expectations of enterprises at the end of 2018 might also be temporary. Yet other Council members expressed the opinion that possible persistence of inflation expectations of enterprises at a heightened level could be a factor contributing to higher inflation in the years to come. They also pointed to the risk of energy price growth in the future. Certain Council members assessed that in the coming years the impact of factors that had so far curbed price growth, such as the increase in the number of discount stores and change in the structure of consumption, might weaken.

The Council decided that interest rates should remain unchanged. In the Council's assessment, current information indicates a relatively favourable outlook for economic conditions in Poland, although a gradual slowing in GDP growth is expected in the years ahead. At the same time, it was pointed out that according to current forecasts, the annual price growth would increase in the coming months, however – due to the lower oil prices than in 2018 Q3 and the freeze on electricity prices – the scale of this increase would be significantly smaller than that expected in the November projection. In the medium term, 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. Thus, 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, interest rates were also likely to remain stable in the coming quarters. These Council members pointed out that this assessment was supported, in particular, by a marked decline in the risk of inflation permanently exceeding the target, along with a rise in uncertainty about the scale and duration of the slowdown in the global economy, as well as its feed-through to domestic economic conditions.

Certain Council members emphasised that significant uncertainty remained about developments in the CPI index in the medium term. These Council members pointed out that should incoming data indicate a significant and lasting increase in inflation expectations and wage demands which would boost inflation to a level that would jeopardise meeting the inflation target, it might be justified to consider an increase in the NBP interest rates in the coming quarters. These Council members pointed out that the likelihood of such a scenario had declined significantly in recent months.

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 the 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%.

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

During the meeting, the Council noted that incoming data pointed to weaker economic conditions in some of the largest economies, and assessed that uncertainty about the outlook for global activity in the coming quarters had increased. The majority of the Council members indicated that GDP growth in the euro area in 2018 Q4 had remained low, and forecasts pointed to its further deterioration in 2019. They also highlighted the markedly, in their view, weaker economic growth, and the drop in business climate indicators in the German economy, Poland's most important trading partner. Certain Council members voiced the opinion that the weakening of the economic conditions observed in the immediate environment of the Polish economy was not significant and probably of temporary nature, while the drop in economic climate indicators resulted partly from political uncertainty. With reference to the economic situation in the United States, it was observed that it remained strong, although GDP growth was expected to decelerate somewhat during the year. Attention was also drawn to the continued gradual decline in activity growth in China.

It was noted that although oil prices had risen since the beginning of the year, they were still lower than in 2018 Q3. The increase in oil prices was, to a large extent, driven by lower oil production in Iran and Venezuela and the announcement of a further reduction in oil supply from Saudi Arabia. Meanwhile, the scale of the rise in oil prices was limited by the deteriorating outlook for demand for oil related to weaker global economic conditions and tensions between the United States and China.

When analysing price growth abroad, it was indicated that lower than in 2018 Q3 oil prices were having a downward effect on inflation in many countries. It was noted that currently core inflation abroad, including the euro area, was low.

Referring to monetary policy abroad, it was observed that the ECB had been keeping interest rates close to zero, including the deposit rate below zero for 4.5 years. At the same time, the ECB is reinvesting funds from the maturing securities. Some Council members assessed that in light of the deteriorating economic outlook in the euro area, the ECB programme of liquidity provision to the banking sector might be expanded, while the indicated period of keeping ECB interest rates at the current level might be extended. It was pointed out that the US Federal Reserve was keeping interest rates unchanged while signalling that its further decisions would depended on the incoming data. Some Council members expressed the opinion that the US economy also might not see further interest rate increases, and that already this year the Federal Reserve might halt the process of balance sheet reduction.

Discussing the developments in Poland's real economy, it was underlined that GDP growth in 2018 Q4 had remained relatively robust. It was noted that activity growth had continued to be driven by consumption, which had been rising further – albeit at a slightly slower pace than in previous quarters – fuelled by increasing employment and wages as well as very strong consumer sentiment. It was emphasised that this was accompanied by growing investment.

While discussing the outlook for economic growth, it was stressed that the recently received data pointed to a likely lower activity growth in 2019 Q1 compared to previous quarters. The results of the March NBP projection indicated that economic growth may gradually decline also in the subsequent quarters, although the economic conditions this year will remain favourable. It was emphasised that weaker economic conditions in Poland's immediate environment would have a negative impact on domestic GDP growth. At the same time, according to the March projection, the scale of the economic slowdown in Poland would be smaller than previously forecast due to the expected positive impact of the fiscal measures announced by the government on domestic demand. Certain Council members expressed the opinion that GDP growth in 2019 might be higher than projected. These members emphasised that given the announced fiscal stimulus and the stabilization of electricity prices, robust growth in consumer demand would probably continue. Moreover, the adverse impact of the weaker economic conditions abroad on the domestic activity would probably be mitigated by Polish firms' high capability to adapt to the changing market environment. The Council members judged that the outlook for the economic growth would continue to be subject to significant uncertainty, with developments in the global economy constituting the key risk factor for the expected GDP growth path.

When analysing labour market performance, it was noted that, while according to the LFS data, the increase in the number of working persons in the economy had flattened in 2018 Q4, corporate sector data for January 2019 pointed to further employment growth in the corporate sector. At the same time, wage growth in the economy in 2018 Q4, and in the corporate sector in January 2019 remained close to 7%. It was indicated that according to the March projection, a similar rate of wage growth was to be expected also in the subsequent quarters. Certain Council members judged that wage growth might be higher due to the possible further increase in wage pressure in the public sector and a decrease in labour supply. Some Council members emphasised at that point that a potential rise in wage growth in the economy would support consumer demand and – given the expected economic activity slowdown – would have a stabilising effect on economic conditions. At the same time, other Council members argued that in the light of the anticipated economic slowdown and after two years of a robust wage growth, the likelihood of a further acceleration in wage growth was relatively low.

Turning to inflation developments in Poland, it was pointed out that – notwithstanding relatively high economic growth and wages rising faster than in previous years – annual consumer price growth had declined in recent months and was currently running low. It was remarked that inflation net of food and energy prices also continued to be low, despite a likely pick-up in January.

While discussing the outlook for inflation, it was emphasised that in line with the March projection, price growth in 2019 would continue at a pace close to that of 2018 and thus was expected to be markedly lower than envisaged in the November projection. The downward revision of the expected inflation resulted from the freeze on electricity prices as well as lower levels of global oil prices than in 2018 Q3. The likely remaining of core inflation at relatively low levels, despite its expected gradual increase, would be another factor curbing price growth. It was pointed out that according to the March projection, CPI inflation in subsequent years would exceed this year's level while remaining moderate and close to 2.5%. Some Council members were of the opinion that price growth in the years to come might be higher than currently forecast. They noted that in the medium term price growth might be boosted by a range of factors, including stronger effects of the announced fiscal measures than suggested by the projection – especially if high capacity utilisation should continue and energy price growth and wage growth should accelerate. Certain Council members assessed that the path of global oil prices posed another risk factor for inflation. However, other Council members argued that the expected economic slowdown, which reduced the likelihood of higher wage momentum in the economy, would hamper price growth. These members also emphasised that under weak economic conditions, firms' propensity to raise prices would probably be limited, especially amid the continuously favourable – although varying across industries – average profitability of their operations.

The Council decided that interest rates should remain unchanged. In the Council’s assessment, the outlook for economic conditions in Poland remains favourable. It was pointed out that in line with the results of the March NBP projection, a gradual slowing in GDP growth was expected in the quarters ahead. At the same time, inflation will continue at a moderate level and will remain close to the inflation target in the monetary policy transmission horizon. Thus, 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 and financial system 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 results of the March NBP projection indicating a limited risk of a lasting deviation of price growth from the inflation target. They emphasised that another argument in favour of keeping interest rates stable was the heightened uncertainty about the scale and duration of the slowdown in the global economy, along with its feeding through to domestic economic conditions.

Certain Council members stressed that there were factors which, in the medium term, could push inflation to higher levels than assumed in the projection. They remarked that should the announced fiscal measures or a potential pick-up in wage growth result in a marked 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.

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 the 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%.

Minutes of the Monetary Policy Council decision-making meeting held on 3 April 2019

During the meeting, the Council noted that incoming data confirmed weaker growth in some of the largest economies, which was particularly visible in world trade and industrial sector activity. It was also underlined that the outlook for global economic conditions in the coming quarters remained uncertain.

The majority of the Council members indicated that growth in the euro area had most probably remained low at the beginning of the year, after sluggish GDP growth in 2018 Q4. This is suggested by the latest output data and confidence indicators, which turned out to be weaker than expected. The Council members pointed out that the deteriorating economic conditions were particularly visible in the German economy, which recorded a further fall in export orders and a continued slowdown in automotive industry. At the same time, it was underlined that favourable conditions for consumption growth, including an ongoing employment and wage growth, and in 2019 also an easing of fiscal policy in Germany, have a stabilising effect on the European and German economy.

It was noted that in the United States economic conditions remained good, although GDP growth probably slowed down in 2019 Q1. This was partly due to temporary factors, but forecasts for the whole year point to a lower growth of the US economy than that recorded in 2018.

In China, activity growth continues to decline gradually. However, it was noted that this was accompanied by measures undertaken by the Chinese authorities aimed at mitigating the scale of the slowdown.

The Council members underlined that the deterioration of the global economic conditions was reflected in the change of monetary policy stance of the major central banks. In view of the downward revisions of GDP and inflation forecasts for the coming years in the euro area and the United States, both the ECB and the Fed have softened their communication on future monetary conditions.

In particular, it was noted that the ECB had extended the expected period of keeping interest rates unchanged, including the deposit rate below zero, and had announced the launch of additional operations providing liquidity to the banking sector. At the same time, the ECB continues to reinvest the funds from the maturing securities.

In turn, the Fed has stopped signalling further interest rate hikes in 2019 and has announced it will stop reducing the size of its balance sheet in the coming quarters. Certain Council members pointed out that the US bond yield curve inverted at the end of March 2019, which might be related to deteriorating expectations of financial market participants regarding the US economic conditions and, in effect, the emergence of expectations of monetary policy easing by the Fed.

It was also noted that although oil prices had risen since the beginning of the year, they were still lower than in 2018 Q3, which was keeping inflation at a moderate level in many countries. It was indicated that core inflation in the environment of the Polish economy, including the euro area, remained low.

Discussing the developments in Poland's real economy, it was underlined that economic conditions remained favourable in Poland, although incoming data indicated lower GDP growth in 2019 Q1 than in 2018 Q4. The Council members noted that activity growth was driven by rising consumption – albeit at a slightly lower rate than in previous quarters – fuelled by increasing employment and wages, as well as very high consumer sentiment. It was stressed that this was accompanied by a rise in investment.

While discussing the growth outlook, some Council members pointed out that in the first months of the year data on output and retail sales proved better than expected, which could result in somewhat higher GDP growth in 2019 Q1 than estimated in the March projection. However, some Council members pointed out that corporate sentiment indicators remained relatively low, which – in the opinion of these Council members – might indicate that there is a risk that in the coming months the slowdown abroad could have a stronger impact on the situation in the Polish industrial sector. It was noted that the major source of risk for the performance of the Polish economy was the scale and duration of the slowdown in its main trading partners. Certain Council members underlined that so far Polish exports had proven to be relatively resistant to the slowdown abroad, and indicated that in the recent period GDP growth forecasts for Poland had even been revised upwards somewhat. At the same time, attention was drawn to the improvement in consumer sentiment in March, which may have been boosted by the announced increase in fiscal expenditures. In the opinion of some Council members, along with further growth in employment and wages, this will act as a factor supporting consumption. The Council members expressed the view that GDP growth in 2019 might be higher than indicated in the March projection.

When analysing labour market performance, it was pointed out that employment growth in the corporate sector was still close to 3% at the beginning of 2019, while wage growth in enterprises in January and February 2019 amounted to approx. 7.5%. Certain Council members indicated the persistent tensions in the labour market, reflected in the reported recruitment problems, as well as the continued wage demands of various occupational groups. Some Council members emphasised that despite this, the labour market had not generated significant inflationary pressure so far. Other Council members expressed the opinion that in the future the situation in the labour market might begin to translate more strongly into inflationary pressure and, as a result, lead to higher price growth than currently predicted.

Turning to inflation developments in Poland, it was underlined that notwithstanding an increase in the recent period, annual consumer price growth remained low. Likewise, inflation net of food and energy prices is still low, despite some rise in recent months. Some Council members judged that taking into account the current forecasts, inflation in 2019 might remain close to the lower limit for deviations from the inflation target. Certain Council members pointed out that there had been a revision of the weights of individual expenditures in the CPI index. The revision of the weights reflected changes in the consumption structure of households, indicating an increase in the share of expenditures on higher-order goods. Other Council members, in turn, drew attention to the increase in growth of prices of services and industrial producer prices in the recent period, which might indicate growing domestic inflationary pressure. Certain Council members pointed to developments in electricity prices in the coming years as to an uncertainty factor.

When analysing changes in inflation expectations, it was noted that in the recent period expectations of enterprises had declined, while households' expectations had increased slightly. Certain Council members underlined that the decline in expectations of enterprises was the result of the freezing of electricity prices. Other Council members pointed out that long-term inflation expectations of market participants remained anchored close to the inflation target.

While discussing monetary policy, the Council decided that interest rates should remain unchanged. In the Council's assessment, the outlook for economic conditions in Poland remains favourable, although the coming quarters may see a gradual slowdown in GDP growth. At the same time, inflation will continue at a moderate level and will remain close to the target in the monetary policy transmission horizon. Thus, 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, interest rates were also likely to remain stable 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. They emphasised that another argument in favour of keeping interest rates stable was the heightened uncertainty about the scale and duration of the slowdown in the global economy, along with its feeding through to domestic economic conditions.

Some Council members stressed that there were factors which, in the medium term, could push inflation to higher levels than suggested by the current forecasts. They remarked that should the announced fiscal measures, a potential pick-up in wage growth, or a possible increase in energy prices result in a marked 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.

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 the 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%.

Minutes of the Monetary Policy Council decision-making meeting held on 15 May 2019

During the meeting, the Council stated that global economic growth had probably continued at a relatively slow pace in 2019 Q1, although economic conditions had improved slightly in some of the largest economies. It was observed that industrial confidence indicators were still weak, while more upbeat signs were coming from the services sector. Some Council members judged that there was persistent uncertainty about the global economic outlook, which stemmed, most notably, from changes in the trade policy of the largest economies.

The Council members pointed out that economic activity growth in the euro area, including Germany, remained rather weak, despite a pick-up in quarterly GDP growth in 2019 Q1. With regard to economic conditions in the United States, it was noted that they remained good, and quarterly GDP growth in 2019 Q1 had been higher than in the previous quarter. At the same time, it was stressed that this owed much to a sharp rise in inventories, amid flagging imports. It was also noted that the stabilisation of economic activity growth in China was a positive sign, which probably, to a large extent, resulted from the stimulus implemented by the country's authorities.

It was indicated that although no tangible pick-up in global economic growth had been observed, oil prices continued to rise gradually. The Council members judged that this was primarily the result of supply-side factors. It was pointed out that the rise in global oil prices had translated into somewhat higher inflation in many countries. At the same time, it was underlined that core inflation in the environment of the Polish economy, including the euro area, had also increased slightly.

Referring to monetary policy abroad, it was observed that following a considerable easing of its rhetoric in March, the communication of key central banks regarding future monetary conditions had not changed, which reflected the persistence of concerns about the economic outlook.

In particular, it was pointed out that the European Central Bank was keeping interest rates close to zero, including the deposit rate below zero, and was reinvesting maturing securities bought under the asset purchase programme. The ECB also reiterated its forward guidance about the expected period of interest rates remaining at the current level until at least the end of the year, and about additional TLTRO operations to be launched in September. In the recent period, the Federal Reserve also kept interest rates unchanged, while the markets started to expect interest rate cuts in the United States in the quarters to come. Meanwhile, the Fed began to gradually limit its balance sheet reduction.

While assessing developments in Poland’s real economy, it was observed that economic conditions remained favourable, although – according to the GUS flash estimate – GDP growth in 2019 Q1 had been somewhat weaker than in previous quarters. The Council members pointed out that activity growth continued to be supported by consumption, which had been rising further – albeit at a slightly slower pace than in previous quarters – fuelled by increasing employment and wages, as well as very strong consumer sentiment, and which had been accompanied by investment growth.

While discussing the outlook for economic growth in the coming quarters, the Council members voiced the opinion that GDP growth in 2019 might be higher than suggested by the March projection. Some Council members pointed out that GDP growth in 2019 Q1 had proved higher than expected and that business sentiment had recently improved, which was also a sign of a favourable outlook for domestic economic activity. It was observed that the very strong position of employees in the labour market and the government's fiscal programmes worked consistently in the same direction. However, these Council members pointed out that the PMI in industry remained below the 50 point threshold, which signalled uncertainty about further activity growth in this sector, including the risk of the slowdown abroad possibly affecting the situation in Poland more strongly. It was emphasised that the key source of risk for the domestic economy was the scale and persistence of the activity slowdown in Poland's main trading partners.

When analysing labour market performance, it was indicated that robust employment growth was sustained in the corporate sector, and that the unemployment rate had continued to decline, hitting further historical lows. Certain Council members suggested that this translated into persistent tensions in the labour market, reflected in the reported recruitment problems, and wage demands of various occupational groups. Yet it was observed that despite this, wage growth across the economy had slowed down to 7.1% in 2019 Q1 (compared with 7.7% in 2018 Q4), which was in part the effect of somewhat weaker wage growth in the corporate sector. Certain Council members expressed the concern that in future the situation in the labour market might start to translate, in a more pronounced way, into price pressure.

Turning to inflation developments in Poland, it was observed that consumer price growth had increased in recent months. The Council members emphasised that despite this, inflation continued to run at moderate levels. It was pointed out that the rise in inflation was partially caused by the increase in fuel and food prices, resulting, to a great extent, from an increase in global oil prices, as well as the effects of reduced supply of pork in China, combined with the adverse influence of last year's drought on the prices of certain vegetables – i.e. factors beyond the impact of monetary policy. At the same time, it was underlined that core inflation had risen as well. It was noted that the increase in core inflation was partially driven by the strong performance of the Polish economy, although it was also the effect of the expiry of one-off factors curbing its growth so far.

Certain Council members pointed out that inflation net of food and energy prices had exceeded 1.5%, thus the NBP reference rate deflated with that index turned mildly negative. However, other Council members emphasised that real interest rates on loans from commercial banks and credit institutions remained significantly positive.

Some Council members observed that inflation should stabilise in the following months at a level close to that recorded in April and would remain moderate. In the opinion of certain Council members, favourable demand conditions, which still prevailed in the Polish economy, as reflected in rising service prices, would drive inflation up. These Council members pointed out that amid high resource utilisation in the economy, it was difficult to assess how long companies would be able to keep narrowing the profit margins in order to avoid passing the rising costs through to prices. According to these Council members, inflation in the subsequent quarters might also be propelled by increased social expenditure, even if growth in other expenditure of the general government sector was to slow down. Other Council members judged that the inflationary effect of higher social spending should be relatively small, especially in view of its potential allocation to savings. These Council members also remarked that strong price competition and the weakening GDP growth anticipated in the following quarters would curb inflationary pressures. Some Council members underscored that developments in global oil prices and domestic energy prices in the subsequent years constituted an uncertainly factor.

While analysing inflation expectations, it was remarked that the structure of responses to questions in the surveys of both companies and households had not changed markedly of late. The Council members emphasised that market participants’ long-term inflation expectations remained anchored close to the inflation target.

While discussing monetary policy, the Council decided that interest rates should remain unchanged. In the Council's assessment, the outlook for economic conditions in Poland remains favourable, although the coming quarters may see a gradual slowdown in GDP growth. At the same time, inflation will continue at a moderate level and will remain close to the target in the monetary policy transmission horizon. Thus, 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, interest rates were also likely to remain stable 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. They emphasised that another argument in favour of keeping interest rates stable was the heightened uncertainty about the scale and duration of the slowdown in the global economy, along with its feeding through to domestic economic conditions.

Some Council members stressed that there were factors which, in the medium term, could push inflation to higher levels than suggested by the current forecasts. They remarked that should the announced fiscal measures, a potential pick-up in wage growth, or a possible increase in energy prices result in a marked 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.

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 the 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%.

Minutes of the Monetary Policy Council decision-making meeting held on 5 June 2019

During the meeting, the Council stated that global economic growth continued at relatively slow pace. It was noted that industrial confidence indicators remained weak and the volume of world trade was declining. However, this was accompanied by relatively good business conditions in services. Attention was also drawn to the heightened uncertainty about the global economic outlook for the coming quarters, to a large extent a result of further possible changes in the trade policy of the largest economies. It was also judged that the risk prevails of a stronger weakening of global economic activity than predicted by current forecasts.

The Council members pointed out that economic activity growth in the euro area, including Germany, remained weak. It was stated that although GDP growth in the German economy was higher in 2019 Q1 than at the end of 2018, this was partly the result of temporary factors. It was underlined that in view of the still weak business conditions in German industry, the available forecasts point to a low growth rate for this economy in 2019. Referring to economic conditions in the United State, it was indicated that they currently remain good. When analysing economic situation in China, it was pointed out that although GDP growth stabilised in this economy in 2019 Q1, recent data indicate the risk of some weakening in economic conditions in the current quarter.

It was indicated that in the recent period the heightened uncertainty about the outlook for global economic growth had contributed to a fall in global oil prices following their earlier significant rise. At the same time, it was pointed out that in recent months there had been a marked increase in the prices of certain food products.

When referring to inflation abroad, attention was drawn to some increase in price growth in many countries in April. It was underlined that core inflation had also risen somewhat in the external environment of the Polish economy, including in the euro area. Some Council members judged that the increase in price growth was probably temporary. Certain Council members pointed out that inflation in emerging market economies remained higher than in advanced ones.

Referring to monetary policy abroad, it was pointed out that the major central banks – in view of concerns about a deterioration in economic conditions – were easing their rhetoric regarding future monetary policy. The European Central Bank was keeping interest rates close to zero, including the deposit rate below zero, and also reiterated its forward guidance about keeping interest rates at the current level in the coming quarters. Moreover, the ECB continued to reinvest maturing securities bought under the asset purchase programme and had announced additional TLTRO operations to be launched in September. The Federal Reserve also kept interest rates unchanged, amid growing expectations of interest rate cuts this year. Meanwhile, the Fed began to gradually limit its balance sheet reduction.

While discussing developments in Poland's real economy, it was observed that economic conditions remained favourable. It was pointed out that in 2019 Q1 annual GDP growth reached 4.7% and was higher than the forecast. The Council members underlined that activity growth continued to be supported by consumption, which had been rising further – albeit at a slightly slower pace than in previous quarters – fuelled by increasing employment and wages, as well as very strong consumer sentiment. At the same time, it was stated that in 2019 Q1 investment in the economy had risen significantly. Attention was also drawn to the high growth in investment outlays among medium-sized and large enterprises, which suggested a significant recovery in investment in the enterprise sector. It was emphasised that despite the weakening of economic conditions in Poland's immediate environment, marked export growth continued in 2019 Q1, and net exports made a positive contribution to GDP growth. Export growth was supported by the recovery in foreign sales to countries outside the euro area, which – in the opinion of some Council members – might indicate that enterprises were adjusting to the weakening economic conditions in their immediate environment and shifting some production to other markets.

The Council members also drew attention to the continued sound financial situation of the enterprise sector. They noted that some decline in net profits in 2019 Q1 was mainly the result of a deterioration of the situation in the energy and mining sectors. However, in the overwhelming majority of the remaining sectors financial results had improved. It was also emphasised that the positive financial situation of companies was reflected in the stable level of their profit on sales.

While analysing the outlook for economic growth, the Council members judged that GDP growth in 2019 might be slightly higher than expected in the March projection. It was noted that economic growth would continue to be driven by growth in consumer demand, which is supported by the very optimistic consumer sentiment in view of the favourable labour market conditions for consumers and the social benefits already introduced and announced by the government. Some Council members judged that the scale of the impact on the Polish economy of the slowdown abroad might be weaker than previously expected – as was the case so far. However, other Council members noted that there was a risk of a weakening of activity in the industrial sector over the coming months. This was indicated by the PMI index staying below the 50 point level and the results of other business surveys, suggesting that activity growth in industry had thus far been sustained by the clearing of previously accumulated production arrears. It was emphasised that the key source of risk for the domestic economy was the scale and persistence of the activity slowdown in Poland's main trading partners and the strength of its pass-through to the Polish economy.

When analysing labour market performance, it was indicated that unemployment remained very low. Alongside that, employment in the enterprise sector continued to grow at a relatively fast pace. In turn, according to the LFS, the number of working persons in 2019 Q1 was slightly lower than a year earlier. In the opinion of the Council members, the discrepancies between the data of the enterprise sector and the LFS might partly result from the growing share of employees from the East among the newly employed, and also from changes in the forms of employment. Some Council members judged that the recent data from the labour market – including about the number of new job offers – might suggest that growth in demand for labour was weakening. Concurrently, wage growth – both in the enterprise sector and in the whole economy – remained stable at close to 7%. Certain Council members expressed the opinion that the stabilisation of wage growth was backed by the social programmes that had been introduced, raising household disposable income and thus limiting wage pressure.

Turning to inflation developments in Poland, it was observed that in recent months consumer price growth had risen, yet remained at a moderate level. It was pointed out that the rise in inflation was partially caused by the increase in fuel and food prices. It was emphasised that core inflation had also risen, which reflected a marked pick-up in growth in the prices of services amid continued favourable situation of Polish consumers. Certain Council members pointed out that the price growth observed by some households might be higher than CPI inflation calculated for the average household.

Some Council members observed that inflation in the coming months should remain close to the level seen in May. It was also emphasised that uncertainty existed regarding inflation developments at the beginning of 2020. It was pointed out that in the case of an adjustment of electricity prices for households to market conditions, consumer price growth in 2020 Q1 might increase. Certain Council members judged that such an increase might lead to higher inflation expectations. Other Council members observed, however, that the increase in inflation at the beginning of 2020 – should it occur – would be short-lived, and later in 2020 inflation would probably run close to the target. Some Council members emphasised that global developments in oil and food prices in the coming years posed a factor of uncertainty.

Certain Council members pointed out that the NBP reference rate deflated with both CPI and inflation net of food and energy prices was currently negative. These Council members judged that this contributed to an increase in lending to households amid high – in their opinion – indebtedness of these entities. Other Council members, in turn, emphasised that the real interest rates on household loans were still significantly positive. At the same time, these Council members expressed the opinion that the growth in lending to households was supported by their good financial situation, which improved their creditworthiness. In the opinion of these Council members, growth in claims of the banking sector on households remained moderate. Attention was also drawn to the relatively low growth in corporate investment loans, which – in the opinion of certain Council members – might be the effect of limited supply on the part of banks. Yet some Council members judged that growth in these loans was limited by low demand, resulting from the significant scale of investment being self-financed by enterprises.

While discussing monetary policy, the Council decided that interest rates should remain unchanged. In the Council's assessment, the outlook for economic conditions in Poland remains favourable, and GDP growth in 2019 may be slightly higher than expected in the March projection. At the same time, inflation will continue at a moderate level and will remain close to the target in the monetary policy transmission horizon. Thus, 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, interest rates were also likely to remain stable 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. They emphasised that another argument in favour of keeping interest rates stable was the heightened uncertainty about the scale and duration of the slowdown in the global economy, along with its feeding through into domestic economic conditions.

Some Council members stressed that there were factors which, in the medium term, could push inflation to higher levels than suggested by the current forecasts. They remarked that should the announced fiscal measures, a potential pick-up in wage growth, or a possible increase in energy prices result in a marked 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.

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 the 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%.

Minutes of the Monetary Policy Council decision-making meeting held on 3 July 2019

During the meeting, the Council pointed out that activity growth in the global economy remained relatively soft. Industrial confidence indicators continued to be weak and the volume of world trade was declining. At the same time, although business conditions in the service sector remained relatively strong, incoming data pointed to their possible deterioration in the months to come. This was accompanied by heightened uncertainty about the global economic outlook for the coming quarters, resulting in part from further possible changes in the trade policy of the largest economies.

The Council members observed that activity growth in the euro area continued to be sluggish. Attention was drawn to subdued business conditions in the euro area industry, with an emphasis on the decline in industrial output in Germany in the recent period. This was accompanied by the consistently strong performance of the service sector. However, some Council members judged that the persistent downturn in industry might gradually start weighing on household sentiment, thus posing a downside risk to activity in services. It was stressed that according to available forecasts, GDP growth in the euro area would be markedly slower in 2019 than a year ago. Some Council members perceived a substantial risk that growth in the area might be lower than the forecasts, particularly if tariffs on the exports of some European products to the United States would be imposed.

Referring to economic conditions in the United States, it was pointed out that they remained good. At the same time, recent readings of business climate indicators in this economy signalled a possible weakening of activity in the subsequent quarters, and available forecasts pointed to a gradual decline in GDP growth. In turn, when analysing the economic situation in China, it was noted that incoming data were indicative of weaker economic conditions in 2019 Q2.

While discussing the situation in the global commodity markets, it was observed that in the recent period heightened volatility of oil prices had persisted, yet those prices remained lower than a year ago. Parallel to that, global prices of some food products had risen. It was emphasised that in many countries inflation remained at moderate levels. It was highlighted that inflation in the euro area had declined recently, and core inflation was running below 1%.

Referring to monetary policy abroad, attention was drawn to a marked shift in the rhetoric of the main central banks in recent months. It was observed that the Federal Reserve, while keeping interest rates unchanged so far, was gradually limiting the pace of its balance sheet reduction and was signalling the possibility of a monetary policy easing in the subsequent quarters. The European Central Bank was keeping its interest rates close to zero, including the deposit rate below zero, and was reinvesting maturing securities bought under the asset purchase programme. At the same time, the ECB had extended the indicated period of keeping interest rates unchanged, while signalling the possibility of further monetary policy easing. Some Council members additionally observed that in Central and Eastern Europe – despite inflation running above the targets in some of the economies – central banks had not signalled a tightening of monetary policy.

When discussing developments in Poland's real economy, it was observed that economic conditions remained favourable. Rising consumption, fuelled by increasing employment and wages, very strong consumer sentiment and disbursement of benefits, continued to boost economic activity growth. Incoming data also point to a further substantial rise in investment and exports.

While analysing the outlook for economic growth, the Council members judged that GDP growth should continue at a relatively high pace in the coming years. Economic growth would still be supported by expanding consumer demand growth. Some Council members assessed that business climate indicators signalled the possibility of weaker conditions in the industrial sector in subsequent months. These Council members also expressed the opinion that export growth might slow down as well, should household sentiment deteriorate and consumer demand in the immediate environment of the Polish economy weaken. These Council members additionally observed that in the event of a more pronounced slowdown in the euro area, GDP growth in Poland might be slower than forecast in the July NBP projection. However, other Council members argued that economic growth might run above the level expected in the July projection. They assessed that in the quarters to come the impact of the slowdown abroad on the Polish economy might be – as it had been so far – limited and weaker than expected.

When analysing labour market performance, it was indicated that employment growth in the enterprise sector had decreased in May. Some Council members judged that this might signal a stabilisation of labour demand. At the same time, despite somewhat faster growth in May, wages in the industrial sector rose at a relatively stable pace. The Council members emphasised that the change in regulations on the employment of non-EU employees in Germany was an uncertainty factor to the future labour market situation in Poland. It was pointed out that it might cause an outflow of some Ukrainian workers from the Polish market, yet the scale of this phenomenon was difficult to estimate. Certain Council members assessed that the reduction in the number of Ukrainian employees active in the Polish labour market, coupled with the expected by those Council members acceleration of wage growth in the government sector might contribute to higher wage growth across the economy, and consequently to higher price growth. In contrast, other Council members expressed the opinion that, given the expected gradual decline in GDP growth in Poland, the risk of accelerating wage growth and inflation was small.

Turning to inflation developments in Poland, it was noted that consumer price growth had risen in recent months, yet remained at a moderate level. The rise in inflation was partially caused by higher price growth of fuel and food. This was accompanied by a rise in core inflation. Some Council members emphasised that core inflation had increased moderately and remained significantly lower than CPI inflation. Certain Council members observed that the rise in core inflation – along with higher growth in prices of goods sensitive to domestic economic conditions and prices of services – was an indication of the build-up of demand pressure in the economy.

While analysing the outlook for inflation, some Council members emphasised that, according to the NBP projection, price growth over almost the whole projection horizon would remain close to 2.5%, except for the beginning of 2020, when – due to the impact of temporary factors beyond the control of domestic monetary policy – it might be higher, although still below the upper limit of deviations from the target. These Council members pointed out that the above developments would be accompanied by only a gradual rise in core inflation. Some Council members expressed the opinion that in the case of a more pronounced slowdown in GDP growth in the euro area – and consequently, in Poland – price growth might be lower than the forecast. However, certain Council members pointed out that the inflation path in the NBP July projection was higher than in the NBP March projection, with price growth running in the upper band for deviations from the target during most of the forecast period. They expressed the opinion that inflation growth in the coming years might be fuelled by a further rise in the growth of prices of services, expected by these Council members, as well as stronger pass-through of rising costs of enterprises to prices of final products. These Council members judged that the expected higher inflation at the beginning of 2020 might become persistent and that price growth in the whole projection horizon might be higher than the forecast.

Certain Council members pointed out that the NBP reference rate deflated by both CPI and inflation net of food and energy prices was currently negative. These Council members observed that in view of the forecast rise in inflation, the stabilisation of the NBP interest rates would lead to a further fall in real interest rates, which would stimulate lending. However, other Council members noted that real interest rates in Poland were among the highest in Europe and that lending growth was moderate and slower than growth in deposits.

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. At the same time, inflation will remain moderate and will stay close to the target in the monetary policy transmission horizon. Thus, the majority of 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 their assessment was supported by current forecasts indicating a limited risk of a lasting deviation of price growth from the inflation target. They emphasised that another argument in favour of keeping interest rates stable was the continued heightened uncertainty about the scale and duration of the slowdown in the global economy, along with its feeding through into domestic economic conditions.

Some Council members stressed that in the event of significant price growth 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, certain Council members judged that the economic growth and inflation would most likely be higher than indicated by the current projection. In their assessment, as a result, inflation might exceed the target in the coming years. Moreover, along with the expected rise in price growth, the level of real interest rates would decline, which could – in the opinion of these Council members – excessively stimulate lending and create the problem of over-indebtedness of households. In the view of these Council members, in order to maintain price stability and limit household lending growth, it would be advisable to increase NBP interest rates at the current meeting of the Council.

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 the introduction of unconventional monetary policy instruments.

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%.

Minutes of the Monetary Policy Council decision-making meeting held on 11 September 2019

During the meeting, the Council pointed out that activity growth in the global economy remained relatively soft, and the global economic outlook had deteriorated. The volume of world trade was declining, which, combined with the announcements of further measures to increase trade barriers was reflected in the persistently weak performance of the industrial sector. At the same time, although business conditions in the service sector remained relatively strong, incoming data pointed to their possible deterioration in the months to come. It was underlined that as a result, uncertainty about the global economic outlook for the coming quarters had risen in recent months. Some Council members observed that besides changes in the trade policy of key economies, it was probably the tendency of slowdown in economic growth after years of expansion that negatively affected activity in many countries.

The Council members observed that GDP growth in the euro area in 2019 Q2 continued to be sluggish. Attention was drawn to the fact that although the performance of the service sector continued to be strong, activity in the industrial sector was decreasing. It was pointed out that euro area growth continued to be mainly driven by consumer demand, supported by relatively strong consumer sentiment and the improvement in the labour market conditions compared to previous years. However, industrial output, particularly sensitive to conditions in international trade, was on the decline. Some Council members judged that in the quarters to come, the persistent downturn in industry might start negatively weighing on household sentiment and translate into weaker activity in services. It was stressed that GDP had shrunk in Germany in 2019 Q2 in quarter-on-quarter terms, and forecasts pointed to a possible further GDP fall in 2019 Q3. Certain Council members observed at this point that the German Finance Minister had signalled its readiness to apply a fiscal stimulus should the German economy face a crisis.

Referring to economic conditions in the United States, it was indicated that while GDP growth in 2019 Q2 was higher there than in the euro area, it had slowed down on previous quarters. Some Council members observed at that point that business climate indicators in this economy signalled a possible further weakening of activity in the subsequent quarters, which gave rise to downward revisions of 2019 GDP forecasts for the United States. Certain Council members pointed out that many indicators already suggested a growing risk of recession in the United States in the coming quarters. They underlined that a potential recession in the United States would have a highly adverse effect on the global economic outlook, especially the outlook for euro area, Germany, and, hence, also Poland.

With regard to the economic situation in the external environment of the Polish economy, it was noted that in China GDP growth had also decelerated in 2019 Q2, hitting the lowest point since 1992.

While discussing the situation in the global commodity markets, it was observed that in recent months global oil prices had declined. Certain Council members pointed out that prices had declined despite mounting geopolitical tensions. It was underlined that the development of crude oil extraction and transport capacity in the United States had a stabilising effect on the market. Some Council members pointed out that the fall in oil prices was the result of a slowdown in global economic growth and the persistence of negative signals regarding the global economic outlook. It was emphasised that lower oil prices were also reflected in lower inflation in the largest advanced economies and a strong decline in inflation expectations in these countries.

Referring to monetary policy abroad, attention was drawn to the fact that many central banks had started monetary policy easing. It was underlined that the European Central Bank was keeping its interest rates close to zero, including the deposit rate below zero, and was reinvesting maturing securities bought under the asset purchase programme, while signalling the possibility of monetary policy easing in the near future. It was also noted that the Federal Reserve had cut interest rates in July 2019 and in August had stopped reducing its balance sheet. Certain Council members judged that, despite the cautious rhetoric of the Fed regarding further interest rate cuts, it should be expected that the Federal Reserve would continue its monetary policy easing in the coming months. It was noted that fears about the future economic conditions were having a negative impact on financial market sentiment, leading to growing uncertainty and volatility in the prices of financial instruments, and causing a sharp fall in the yields on debt securities. As a result, at present a significant portion of government bonds in advanced countries have negative yields.

When discussing developments in Poland's real economy, it was observed that, despite flagging growth abroad, domestic economic conditions remained favourable, and GDP growth in 2019 Q2 amounted to 4.5% y/y. Rising consumption, fuelled by increasing employment and wages, very strong consumer sentiment and disbursement of benefits, continued to boost economic activity growth. It was noted that investment also increased in 2019 Q2, despite some slowdown in growth. At the same time, the growth rate of exports and imports declined.

While analysing the outlook for economic growth, the Council members judged that GDP growth should continue at a relatively high pace in the coming years, although probably somewhat lower than forecast in the July projection. It was noted that economic growth would still be supported by expanding consumer demand. In this context, certain Council members drew attention to the positive impact of the fiscal stimulus on GDP growth. However, some Council members observed that business climate indicators pointed to the possibility of a slowdown in the industrial sector activity over the coming months. These Council members noted that amid a slowdown abroad and weaker inflow of funds from the European Union, there could be softer growth in investment. It was noted that the key source of risk for domestic economic activity was the scale and persistence of the downturn in the euro area, including in Germany.

When analysing labour market performance, it was indicated that employment growth in the enterprise sector had decreased and that there was no further increase in wage growth. Some Council members judged that this might signal a stabilisation of labour demand. According to these Council members, wage growth in the economy as a whole was still not a factor which could lead to excessive price growth, since due to a significant rise in labour productivity, unit labour cost growth remained low.

Turning to inflation developments in Poland, it was noted that consumer price growth remained moderate. It was pointed out that in August 2019 – according to the GUS flash estimate – inflation stood at 2.8% y/y. Attention was drawn to the fact that price growth was boosted mainly by the significant increase in food prices, partly resulting from the ASF epidemic in China and the drought in Poland, thus due to factors beyond the control of domestic monetary policy. In turn, lower energy prices, including fuel prices, than a year ago had a curbing effect on price growth. At the same time, core inflation remained at a moderate level.

Some Council members emphasised that inflation was in line with the NBP inflation target, while core inflation – despite accelerating – remained significantly lower than CPI inflation. These Council members pointed out that prices of services were rising faster than in previous years, but that this was partly due to the high growth in administered prices, and partly reflected real convergence processes. Other Council members noted that the relatively high growth in the prices of services was also the result of supply barriers, amid relatively strong demand growth. In the opinion of these Council members, there was a similar situation in the construction industry, where many companies were reporting high capacity utilisation. At the same time, it was underlined that PPI inflation had declined in recent months and was currently very low.

While analysing the outlook for inflation, some Council members emphasised that, according to the latest NBP forecasts, price growth would probably rise only slightly by the end of 2019, while in 2020 Q1 inflation might temporarily rise close to the upper limit of deviations from the inflation target. These Council members underlined that inflation growth at the beginning of 2020 would largely result from the statistical base effect and the assumed increase in energy prices. It was underlined that – according to current forecasts – in the successive months of 2020 inflation would, however, decline, falling to levels close to 2.5% in the middle of the year. However, certain Council members drew attention to the need to monitor the changes in inflation expectations.

Certain Council members pointed out that the NBP reference rate deflated by both CPI and inflation net of food and energy prices was currently negative. These Council members argued that very low interest rates reduced the propensity of households to save and encouraged them to search for more profitable, albeit riskier forms of investing their savings. In the opinion of these Council members, low interest rates have a negative impact on the performance of the banking sector, which strengthens the tendency to concentrate banking activity in market segments yielding high margins. In this context, attention was drawn, on the one hand, to the relatively high growth in consumer and housing loans, and on the other hand, to low growth in corporate loans. Yet other Council members stressed that the real interest rates on loans in Poland are significantly positive.

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 and 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 also likely to remain stable 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. In the opinion of these Council members, uncertainty about the economic outlook and future price growth had risen.

Certain Council members noted that in recent months there were more signs of a deterioration in the global economic conditions, including a significant increase in the risk of recession in the US economy. 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%.

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%.

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 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 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 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%.

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.

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.

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%.

Appendix 3. Voting records of the Monetary Policy Council members on motions and resolutions

Voting records of the Monetary Policy Council members on motions and resolutions in 2019 are presented below.

- Date: 29 April 2019

Subject matter of motion or resolution:

Resolution No. 1/2019 of the Monetary Policy Council of 29 April 2019 on approving the Annual Financial Report of the National Bank of Poland prepared as of 31 December 2018.

Voting of the MPC members:

For:	A. Glapiński	**Against:**	E. Gatnar
	G. M. Ancyparowicz		Ł. J. Hardt
	E. M. Łon		J. J. Kropiwnicki
	E. J. Osiatyński		K. Zubelewicz
	R. Sura		
	J. Żyżyński		

- Date: 14 May 2019

Subject matter of motion or resolution:

Resolution No. 2/2019 of the Monetary Policy Council of 14 May 2019 on approving the Report on monetary policy in 2018.

Voting of the MPC members:

For:	A. Glapiński	**Against:**	
	G. M. Ancyparowicz		
	E. Gatnar		
	Ł. J. Hardt		
	E. M. Łon		
	E. J. Osiatyński		
	R. Sura		
	K. Zubelewicz		
	J. Żyżyński		

J. J. Kropiwnicki was absent.

■ Date: 14 May 2019

Subject matter of motion or resolution:

Resolution No. 3/2019 of the Monetary Policy Council of 14 May 2019 on evaluation of the activities of the NBP Management Board as regards the implementation of monetary policy guidelines for 2018.

Voting of the MPC members:

For:		**Against:**	
	A. Glapiński		
	G. M. Ancyparowicz		
	E. Gatnar		
	Ł. J. Hardt		
	E. M. Łon		
	E. J. Osiatyński		
	R. Sura		
	K. Zubelewicz		
	J. Żyżyński		

J. J. Kropiwnicki was absent.

■ Date: 24 May 2019

Subject matter of motion or resolution:

Resolution No. 4/2019 of the Monetary Policy Council of 24 May 2019 on approving the report on the operations of the National Bank of Poland in 2018.

Voting of the MPC members:

For:		**Against:**	
	A. Glapiński		E. Gatnar
	G. M. Ancyparowicz		Ł. J. Hardt
	E. M. Łon		E. J. Osiatyński
	R. Sura		K. Zubelewicz
	J. Żyżyński		

J. J. Kropiwnicki was absent.

■ Date: 4 June 2019

Subject matter of motion or resolution:

Resolution No. 1/DRF/2019 of the Monetary Policy Council of 4 June 2019 on the appointment of a registered auditor for the Annual Financial Statements of the National Bank of Poland for years 2019 and 2020.

Voting of the MPC members:

For:		**Against:**	
	A. Glapiński		
	G. M. Ancyparowicz		
	E. Gatnar		
	Ł. J. Hardt		
	E. M. Łon		
	R. Sura		
	K. Zubelewicz		
	J. Żyżyński		

J. J. Kropiwnicki and E. J. Osiatyński were absent.

■ Date: 3 July 2019

Subject matter of motion or resolution:

Motion to raise the NBP interest rates by 0.25 percentage points.

MPC decision:

Motion did not pass

Voting of the MPC members:

For:		**Against:**	
	E. Gatnar		A. Glapiński
	K. Zubelewicz		G. M. Ancyparowicz
			Ł. J. Hardt
			E. M. Łon
			E. J. Osiatyński
			R. Sura
			J. Żyżyński

J. J. Kropiwnicki was absent.

Date: 10 September 2019

Subject matter of motion or resolution:

Resolution No. 5/2019 of the Monetary Policy Council of 10 September 2019 on adopting monetary policy guidelines for 2020.

Voting of the MPC members:

For:	A. Glapiński G. M. Ancyparowicz E. Gatnar Ł. J. Hardt E. M. Łon E. J. Osiatyński R. Sura J. Żyżyński	**Against:**	K. Zubelewicz

J. J. Kropiwnicki was absent.

Date: 11 September 2019

Subject matter of motion or resolution:

Motion to lower the NBP interest rates by 0.25 percentage points.

MPC decision:

Motion did not pass.

Voting of the MPC members:

For:	E. M. Łon	**Against:**	A. Glapiński G. M. Ancyparowicz E. Gatnar Ł. J. Hardt J. J. Kropiwnicki E. J. Osiatyński R. Sura K. Zubelewicz J. Żyżyński

■ Date: 2 October 2019

Subject matter of motion or resolution:

Motion to lower the NBP interest rates by 0.25 percentage points.

MPC decision:

Motion did not pass.

Voting of the MPC members:

For:	E. M. Łon	**Against:**	A. Glapiński G. M. Ancyparowicz Ł. J. Hardt J. J. Kropiwnicki E. J. Osiatyński R. Sura K. Zubelewicz J. Żyżyński

E. Gatnar was absent.

■ Date: 5 November 2019

Subject matter of motion or resolution:

Resolution No. 6/2019 of the Monetary Policy Council of 5 November 2019 on the principles for creating and releasing provision against the foreign exchange rate risk of the zloty at the National Bank of Poland.

Voting of the MPC members:

For:	A. Glapiński G. M. Ancyparowicz E. Gatnar Ł. J. Hardt J. J. Kropiwnicki E. M. Łon E. J. Osiatyński R. Sura K. Zubelewicz J. Żyżyński	**Against:**	

Date: 5 November 2019

Subject matter of motion or resolution:

Resolution No. 7/2019 of the Monetary Policy Council of 5 November 2019 amending the resolution on accounting principles, the layout of balance sheet assets and liabilities and profit and loss of the National Bank of Poland.

Voting of the MPC members:

For:		Against:	
	A. Glapiński G. M. Ancyparowicz E. Gatnar Ł. J. Hardt J. J. Kropiwnicki E. M. Łon E. J. Osiatyński R. Sura K. Zubelewicz J. Żyżyński		

Date: 6 November 2019

Subject matter of motion or resolution:

Motion to lower the NBP interest rates by 0.25 percentage points.

MPC decision:

Motion did not pass.

Voting of the MPC members:

For:		Against:	
	E. M. Łon		A. Glapiński G. M. Ancyparowicz E. Gatnar Ł. J. Hardt J. J. Kropiwnicki E. J. Osiatyński R. Sura K. Zubelewicz J. Żyżyński

■ Date: 3 December 2019

Subject matter of motion or resolution:

Resolution No. 8/2019 of the Monetary Policy Council of 3 December 2019 on approving the Financial Plan of the National Bank of Poland for 2020.

Voting of the MPC members:

For:	A. Glapiński G. M. Ancyparowicz E. Gatnar Ł. J. Hardt J. J. Kropiwnicki E. M. Łon E. J. Osiatyński R. Sura J. Żyżyński	**Against:**	K. Zubelewicz

■ Date: 4 December 2019

Subject matter of motion or resolution:

Motion to lower the NBP interest rates by 0.25 percentage points.

MPC decision:

Motion did not pass.

Voting of the MPC members:

For:	E. M. Łon	**Against:**	A. Glapiński G. M. Ancyparowicz E. Gatnar Ł. J. Hardt J. J. Kropiwnicki E. J. Osiatyński R. Sura K. Zubelewicz J. Żyżyński

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