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.

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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.

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The Council decided to keep the NBP interest rates unchanged: the reference rate at 1.50%, the lombard rate at 2.50%, the deposit rate at 0.50%, the rediscount rate at 1.75%.

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