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

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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.

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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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