Minutes of the Monetary Policy Council decision-making meeting held on 5 December 2018

During the meeting, the Council noted that global economic conditions remain favourable, although incoming data suggest a weakening in some economies. It was pointed out that in 2018 Q3 GDP growth in the euro area had softened more than expected. The slowdown in activity was particularly pronounced in the German economy, which is Poland's main trading partner. It was emphasised that economic indicators and the available forecasts suggest a further gradual slowdown in Germany as well as the whole of the euro area, while uncertainty remained about the scale of the slowing. In the United States, GDP data for 2018 Q3 confirmed that economic conditions in this country were still very strong. It was highlighted that a possible further weakening of activity in the global economy could lead to a slowdown in GDP growth in this country.

While analysing the situation in the international financial markets, it was observed that heightened uncertainty about the global economic outlook persisted and continued to have an adverse effect on the prices of some assets. Fears about a global economic slowdown also lowered the prices of some commodities. Attention was drawn to the sharp falls in oil prices in the recent period, which, apart from the deterioration in the global economic outlook, was also a result of geopolitical factors and increased oil production in the United States.

When discussing inflation developments abroad, it was pointed out that in many countries inflation was still elevated due to the earlier increase in energy prices. 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. Concurrently, the ECB continued to purchase financial assets, although it has announced the end of the purchases by the end of the year. Some Council members judged that on account of the deterioration in the current economic conditions and the growth outlook in the euro area, interest rates there would be maintained at a very low level for an extended period of time. In the United States, the Federal Reserve kept interest rates unchanged in November, after another interest rate increase in September. Some Council members emphasised that in this economy too – due to the risk of a slowdown in growth as a result of a deterioration in the global economic conditions – the scale of further interest rate hikes could be smaller than earlier expected.

Discussing the developments in Poland’s economy, it was underlined that preliminary GDP data for 2018 Q3 are indicative of economic conditions remaining strong. It was noted that activity growth continued to be driven by rising consumption, albeit at a slightly lower rate than in previous quarters, fuelled by increasing

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employment and wages, together with very strong consumer sentiment. It was underlined that in 2018 Q3 this was accompanied by a marked rise in investment resulting from both the relatively high growth in public investment – particularly on the part of local governments – and faster growth in gross fixed capital formation in large enterprises than in the first half of the year. At the same time, the marked slowdown in exports due to a deterioration in the economic conditions in the immediate environment of the Polish economy was a factor curbing the GDP growth rate. Owing to lower export growth and relatively stable growth in imports supported by strong domestic demand, the contribution of net exports to GDP growth was negative in 2018 Q3. It was noted that the adverse impact of the economic situation in the euro area on economic conditions in Poland was also confirmed by data on the financial results of Polish enterprises: in 2018 Q3 foreign sales of large companies declined. This was accompanied by an increase in sales costs of enterprises, resulting from rising wages and higher prices of some commodities than a year earlier. However, some Council members underlined that despite these negative conditions total sales of large enterprises was significantly higher than a year earlier, and their financial performance remained sound.

With regard to the outlook for economic growth, it was pointed out that according to available forecasts, the rate of economic growth would gradually decline. It was indicated that the main factor adversely affecting the GDP growth rate would be the expected slowdown in the immediate environment of the Polish economy. Some Council members highlighted that growth in economic activity could additionally be curbed by an increase in production costs of enterprises, in particular, a rise in energy costs. Other Council members underlined that in the case of some enterprises, the rise in energy costs would not impact their financial situation provided the compensation announced by the government was introduced. Some Council members expressed the opinion that GDP growth in 2019 could be higher than currently forecast.

While analysing current developments in the labour market, it was pointed out that unemployment remained low and the number of employed further increased. Yet some Council members judged that incoming data signalled a slowdown in growth in demand for labour. It was stressed that this was accompanied by faster wage growth than in the previous year, which however have recently been stable. Some Council members judged that wage growth would probably also continue at its current pace in the coming quarters. However, other Council members were of the opinion that wage rises for successive groups of public sector workers could be a risk factor for faster wage growth and potentially also for inflation. These Council members also judged that the likely decline in the inflow of employees from abroad would also boost wage rises the following year.

Discussing inflation developments in Poland, it was observed that despite the relatively fast GDP growth and higher wage growth than last year, the annual consumer price growth remained moderate, and core inflation low. It was emphasised that according to the GUS flash estimate, inflation in November decreased more sharply than forecast. It was pointed out that the stronger than expected fall in CPI inflation was the result of not only the slowdown in food price growth, but also, probably, a fall in core inflation.

Turning to the near-term outlook for inflation, it was noted that significant uncertainty existed about developments in the CPI index in 2019. This uncertainty was mainly related to energy price developments for households. At the same time, it was remarked that in 2019 inflation would probably be limited by lower oil prices than earlier forecast. Consequently, it was judged that the risk of a sharp rise in inflation in 2019 declined. Yet certain Council members expressed the opinion that the fall in global oil prices might not fully translate into a fall in domestic oil prices due to the structure of the fuel market in Poland. Some Council members also judged that inflation next year might be elevated by the rise in some administered prices, including those in public transport, as well as price rises of goods with a high share of electricity in their production costs.

With reference to the medium-term outlook for inflation, the majority of the Council members judged that in 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 would have a curbing effect on price growth. Certain Council members emphasised that the factors lowering inflation in 2019 would probably not affect price growth in the longer projection horizon.

Analysing the situation in the credit market, it was pointed out that loan growth in the non-financial sector remained lower than nominal GDP growth. However, certain Council members drew attention to fast growth in household debt from consumer loans.

While 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. In 2019, inflation might be increased by rising energy prices, i.e. a factor beyond the control of monetary policy. The scale of the energy price growth in 2019 will probably be limited by the fall in oil prices seen in recent months. In the medium term, in turn, the expected slowdown in economic growth will have a dampening effect on price growth. 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.

Some Council members emphasised that currently significant uncertainty existed about developments in the CPI index in 2019. However, these Council members pointed

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out that should incoming data indicate a significant increase in inflation in 2019, and successive projections suggest inflation remaining 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.

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%.

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