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

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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

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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%.

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