Minutes of the Monetary Policy Council decision making meeting held on 7 September 2022

At the meeting it was pointed out that the annual GDP growth had declined in 2022 Q2 in major economies, and the incoming Q3 data indicated a further deterioration in the global economic activity. This was because global economic activity and its outlook were still negatively affected by high prices of commodities and production components, the fallout from the Russia's military aggression against Ukraine as well as, although to a lesser extent than before, global supply chain disruptions. Moreover, it was pointed out that global demand was and would be dampened by the tightening of monetary policy by many central banks, including the major ones. It was observed that GDP data for 2022 Q2 confirmed a decline in activity in this period in the United States and China, whereas in the euro area GDP had continued to grow. At the same time, it was indicated that economic activity in Europe in the coming quarters would be weighed down, above all, by a severe supply shock in the market for energy commodities and electricity. On the other hand, it was also observed that the labour market situation in the largest advanced economies remained very good, which was a factor stabilising economic conditions. However, it was pointed out that consumer confidence indicators were running at very low levels in these economies.

With regard to inflationary developments, the Council members observed that in most economies inflation had continued to rise over recent months, reaching again the highest levels in decades in many countries. During the discussion, it was highlighted that inflation in the euro area, according to the Eurostat preliminary data, amounted to 9.1% in August, with many countries of the area recording a double-digit annual price growth, and the Baltic countries seeing inflation exceeding 20%.

It was emphasised that although higher price growth continued to be mainly driven by high commodity prices and persistent – despite signs of their gradual easing – global supply chain disruptions, in some economies inflation was additionally fuelled by demand factors and rising labour costs. In effect, core inflation was also on the rise. The Council members drew attention to the results of business climate surveys, which suggested an easing of cost pressures as a result of mitigated supply chains disruptions and a decline in international transport costs. At the same time, continued rise in core inflation in many economies was evidence of an ongoing process of firms passing on sharp cost increases into the prices of finished goods. The Council members also noted

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that inflation forecasts for the coming quarters were being revised upwards in many economies, although it was pointed out that the expected slowdown in global economic growth would curb demand factors boosting prices.

During the discussion it was observed, that, considering the high current and forecast inflation, many central banks had recently continued to tighten monetary policy. In particular, in July the Federal Reserve of the United States once again raised interest rates. In turn, in the same month the European Central Bank launched its first interest rate hike since 2011.

While analysing the situation in the Polish economy, the Council members judged that the economic conditions in the first half of 2022 had remained favourable; yet the growth in economic activity had been slowing down, as evidenced by GDP data. It was pointed out that, in accordance with the Statistics Poland flash estimate, GDP grew by 5.5% y/y in 2022 Q2, and its decline compared to 2022 Q1, when the annual GDP growth reached 8.5%, was mainly due to significantly lower contribution of inventories. Meanwhile, annual consumption growth remained relatively high in 2022 Q2 and investment growth accelerated.

When referring to monthly data, attention was drawn to the fact that data on industrial production, construction and assembly output, and retail sales in July as well as economic confidence indicators for August suggested that annual growth in economic activity in 2022 Q3 would decline further. In July, growth in both industrial production and construction and assembly output declined. Also retail sales in real terms slowed down, with sales of durable goods falling compared to the previous year. In August, in turn, consumer confidence indicators deteriorated and the PMI for industry saw another drop. Therefore, the Council members judged that in the coming quarters a further decline in the annual GDP growth should be expected, although the forecasts were currently subject to considerable uncertainty. It was pointed out that activity was negatively affected by, among others, the sharp increases in the prices of energy and energy carriers, although these effects would be mitigated by the extension of the Anti-inflationary Shield and the introduction of carbon allowances and heating subsidies.

During the discussion it was emphasised that the labour market situation remained very good, as reflected in the record low unemployment rate and the continued marked wage rises. It was pointed out that unemployment in July stayed at a historic low, while corporate employment continued to increase. It was indicated that wage growth in the corporate sector stood at 15.8% in July; however, its rise compared to the previous month level was largely the result of bonus payments in certain sectors. The Council members drew attention to the fact that for several months the number of job vacancies had been on a decline, which might follow from positions being filled with new employees, but might also indicate some fall in demand for labour.

At the meeting, it was pointed out that according to the Statistics Poland flash estimate, inflation in Poland had risen to 16.1% y/y in August 2022. The Council members underlined that high inflation was still mainly the result of the earlier strong rise in global energy and agricultural commodity prices – driven, to a large extent, by the repercussions of the Russian military aggression against Ukraine – and the earlier increases in regulated domestic tariffs on electricity, natural gas and thermal energy. It was pointed out that inflation continued to be additionally boosted by the consequences of disruptions to global supply chains and passing by enterprises rising costs on to the final prices, which also translated into a rise in core inflation. Meanwhile, the reduction in some of the tax rates as part of the Anti-inflationary Shield was curbing inflation.

While discussing the outlook for inflation in Poland, it was emphasised that according to available forecasts in the coming months inflation would remain close to the current level. The Council members underlined that the path of prices next year would be highly dependent on decisions regarding the Anti-inflationary Shield and the scale of increases in regulated prices. Some Council members judged that inflation would most likely remain highly elevated at least until mid-2023, although – due to the difficulty of predicting developments in regulatory and supply factors, including the further course of the war in Ukraine and the situation in the European commodities market, as well as the uncertainty about the scale of the expected slowdown in the global and European economy – the currently formulated forecasts remained subject to very high uncertainty.

At the same time, the Council members pointed out that the significant increase in the NBP interest rates carried out over the past year, along with the fading impact of the shocks currently boosting prices and the slowdown in economic activity growth, would gradually dampen inflation in the coming years. The decrease in inflation would also be supported by the appreciation of the zloty exchange rate, which in the Council's assessment, would be consistent with the fundamentals of the Polish economy. Alongside that, certain Council members judged that the disinflation process might be hampered by the possible fiscal policy easing.

When referring to the effects of the monetary policy, some Council members drew attention to the fact that the strong increase in the NBP interest rates that had been introduced since October 2021, had translated into a significant rise in interests on loans and deposits, which was resulting, in particular, in a fall in lending to households and a shift in household funds from current accounts to term deposits or the purchase of Treasury bonds. At the same time, certain Council members emphasised that the introduction of the so-called repayment holidays for all mortgage borrowers was weakening the effect of the NBP's monetary policy tightening.

The Council members judged that there persisted a risk of inflation running above the NBP inflation target in the monetary policy transmission horizon. Consequently, the Council concluded that, in order to strive for bringing inflation down to the NBP target in the medium term, NBP interest rates should be raised again. The increase in the NBP interest rates will support curbing inflation expectations and the appreciation of the zloty.

The Council decided to increase the NBP reference rate by 0.25 percentage points, i.e. to 6.75% and set the remaining NBP interest rates at the following levels: the lombard rate at 7.25%, the deposit rate at 6.25%, the rediscount rate at 6.80%, and the discount rate at 6.85%.

The Council members pointed out that further decisions of the Council would depend on incoming information regarding the perspectives for inflation and economic activity, including the impact of the Russian military aggression against Ukraine on the Polish economy.

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