Warsaw, 9 November 2022

Information from the meeting of the Monetary Policy Council held on 9 November 2022

The Council decided to keep the NBP interest rates unchanged:

- **reference rate at 6.75%;**
- **lombard rate at 7.25%;**
- **deposit rate at 6.25%;**
- **rediscount rate at 6.80%;**
- **discount rate at 6.85%.**

Incoming data indicate a deterioration of economic conditions abroad. 2022 Q3 saw a marked lowering of the annual GDP growth in the euro area and its stabilisation in the United States. At the same time, despite a favourable labour market situation in the largest economies, in October business condition indices deteriorated further. Activity in the global economy and its prospects are primarily negatively affected by the impact of Russia's military aggression against Ukraine, including high prices of commodities, food and production components, as well as by the tightening of monetary policy around the world. Meanwhile, there persists uncertainty regarding further impact of these shocks on economic conditions, and in particular – despite some lowering of gas prices in Europe over the recent period – there persists uncertainty regarding the impact of the situation in energy commodity markets on activity in the European economy in the coming quarters.

Inflation in many economies is at the highest levels in decades, and in the euro area and in the countries of Central and Eastern Europe it is still on the rise. Significant source of high inflation continue to be high commodity prices, resulting partly from the repercussions of Russia's military aggression against Ukraine, as well as persistent – despite their easing – disruptions in global supply chains. Rising prices are also driven by demand factors and increasing labour costs. These factors, combined with the passing earlier rises in production cost on to the consumer goods prices, lead also to an increase in core inflation.

Amidst high inflation, major central banks continued to tighten their monetary policy in the recent period. In particular, the US Federal Reserve and the ECB increased interest rates once again.

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In Poland, available monthly data for 2022 Q3, including data on industrial production, construction and assembly output and retail sales, as well as business condition indices, signal that the annual GDP growth decelerated again. A further slowdown of GDP growth is forecast for the coming quarters, while the economic outlook is subject to significant uncertainty. Despite the decelerating GDP growth, labour market situation remains very good, which is reflected i.a. in a low unemployment rate.

Inflation in Poland – according to Statistics Poland flash estimate – increased in October 2022 to 17.9% y/y. The increase in inflation in recent months has been mainly due to a gradual pass-through of high commodity prices to consumer prices. High commodity prices were reflected in rising food and energy prices. At the same time, they boosted operating costs of enterprises, which – given the still relatively high demand – inclined firms to raise prices of consumer goods, contributing to higher core inflation. Core inflation was also driven by the effects of the persisting – though gradually easing – disruptions to global supply chains. At the same time, the Anti-inflationary Shield continued to curb CPI inflation.

The Council became acquainted with the results of the November projection of inflation and GDP based on the NECMOD model. In line with the projection prepared under the assumption of unchanged NBP interest rates and taking into account data available until 21 October 2022 and information on planned legislative changes announced until 7 November 2022, there is a 50-percent probability that the annual price growth will be in the range of 14.4 – 14.5% in 2022 (against 13.2 – 15.4% in the July 2022 projection), 11.1 – 15.3% in 2023 (compared to 9.8 – 15.1%), 4.1 – 7.6% in 2024 (compared to 2.2 – 6.0%) and 2.1 – 4.9% in 2025. At the same time, the annual GDP growth – according to this projection – will be with a 50-percent probability in the range of 4.3 – 4.9% in 2022 (against 3.9 – 5.5% in the July 2022 projection), -0.3 – 1.6% in 2023 (compared to 0.2 – 2.3%), 1.0 – 3.1% in 2024 (compared to 1.0 – 3.5%) and 1.8 – 4.4% in 2025.

The Council assessed, that the expected weakening of the external economic conditions, together with monetary policy tightening by major central banks, will curb global inflation and commodity prices. The weakening of the global economic conditions will also hamper GDP growth in Poland. Under such circumstances, the hitherto significant monetary policy tightening by NBP will support a decline in inflation in Poland towards the NBP inflation target. At the same time, given strength and persistence of the current shocks that remain beyond the impact of domestic monetary policy, in the short term inflation will remain high, and its return to the NBP inflation target will be gradual. A decrease in inflation would be faster if supported by appreciation of zloty exchange rate, which, in the Council's assessment, would be consistent with the fundamentals of the Polish economy.

Further decisions of the Council will depend on incoming information regarding perspectives for inflation and economic activity, including the impact of the Russian military aggression against Ukraine on the Polish economy.

NBP will take all necessary actions in order to ensure macroeconomic and financial stability, including above all to reduce the risk of inflation remaining elevated. NBP may intervene in the foreign exchange market, in particular to limit fluctuations of the zloty exchange rate that are inconsistent with the direction of monetary policy.