Minutes of the Monetary Policy Council decision-making meeting held on 5 October 2022

At the meeting it was pointed out that incoming data indicated a deterioration of global economic conditions in 2022 Q3. Activity in the global economy and its prospects were under the negative impact mainly of high prices of commodities and production components, as well as the repercussions of Russia's military aggression against Ukraine and the tightening of monetary policy around the world. Alongside that, it was pointed out that in many countries the situation in the labour market remained favourable. The majority of the Council members underlined, however, that real purchasing power of wages continued to be curbed by high inflation, which was accompanied by pessimistic consumer and business sentiment.

It was pointed out that in Europe high energy prices and concerns about gas shortages in the face of the coming winter were weakening economic activity, and in energy-intensive sectors had already led to falls in production. At the same time, sharply rising prices of necessity goods were limiting the possibility of many households to purchase other goods and services. This was accompanied by continued high uncertainty about the European economic activity outlook. At the same time, it was pointed out that in the United States the outlook for economic activity was better than in the euro area – due to, among others, the fact that the US economy was not dependent on energy commodities from Russia – although it was also negatively affected by high inflation and significant monetary tightening.

It was pointed out, that the weakening of global economic conditions and weaker prospects for global economic growth were accompanied, during the discussed period, by deteriorating sentiment and increased volatility in global financial markets. This was reflected in a marked drop in equity and bond prices, as well as a depreciation of many currencies against the US dollar.

With regard to global inflationary developments, certain Council members noted that in many economies inflation was running at the highest level in decades. It was emphasised that – according to Eurostat preliminary data – inflation in the euro area rose to around 10% in September, reaching almost 11% in Germany, over 17% in the Netherlands, and continued to clearly exceed 20% in the Baltic states. It was underlined that high commodity prices, driven partly by the consequences of Russia's military

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aggression against Ukraine, continued to be a significant source of high price growth in many economies. Price growth was also boosted by global supply chain disruptions, which were still present despite their gradual easing. In this context, attention was drawn to the very strong growth in producer prices in many economies, including in Germany. The Council members also underlined that in some economies rising prices were also driven by demand factors and rising labour costs. Certain Council members judged that the impact of demand factors on price growth was currently significant. It was emphasised that increased demand, along with the pass-through of earlier increases in production costs to consumer goods prices, were also boosting core inflation. At the same time, it was pointed out that there were signals that the scale of the external shocks which had boosted inflation around the world was gradually decreasing, which – besides the gradual easing of global supply chain disruptions – was evidenced by a slight fall in oil prices. In this context, it was pointed out that CPI inflation in the United States had decreased slightly in the recent period, although it was accompanied by further growth in CPI core inflation.

At the meeting it was observed that amid high inflation, the major central banks had recently continued to tighten their monetary policy. In September the Federal Reserve of the United States and the European Central Bank had significantly increased interest rates once again. At the same time, certain Council members emphasised that the monetary policy tightening by the major central banks was accompanied by communication indicating their determination to bring inflation down to the target. It was pointed out that monetary policy tightening by the major central banks should reduce inflationary pressure on a global scale and contribute to a weakening of the global economic conditions. It was judged that the measures taken by the major central banks would therefore be complementary to the monetary tightening implemented in many economies. Against this background – and also taking into account the lag in the monetary policy transmission mechanism – certain central banks, that had earlier raised interest rates significantly (e.g. the Czech National Bank), were currently refraining from further interest rate hikes. However, certain Council members pointed out that further interest rate increases by the major central banks would – *ceteris paribus* – reduce their interest rate disparity with other economies, which might contribute to an appreciation of the base currencies. These Council members judged that, in such a situation, the impact of the weakening of global inflationary pressure on price growth in many countries would be limited.

While analysing the situation in the Polish economy, the majority of the Council members judged that the available monthly data suggested a gradual deterioration in the economic conditions. Attention was drawn to the weakening household sentiment and lower sales of durable goods than a year earlier, and it was observed that the accompanying further growth in retail sales in annual terms was partly the result of demand generated by Ukrainian refugees. It was underlined that indicators of economic conditions in the manufacturing sector were also pessimistic. At the same time, it was pointed out that industrial production continued to grow significantly, supported by the easing of global supply chain disruptions. Certain Council members judged, however, that the deterioration in the economic conditions was not marked.

The Council members drew attention to the fact that in the coming quarters, amid a global economic slowdown, a further decline in GDP growth in Poland was forecast, which – despite the government's shielding measures – would be driven by high prices of energy and its carriers. At the same time, it was underlined that the economic outlook was subject to significant uncertainty.

During the discussion it was pointed out that despite the deteriorating economic conditions, the situation in the labour market remained very good, which was reflected in the low unemployment rate. However, the majority of the Council members judged that data from the enterprise sector might suggest a slight cooling down of labour demand in some sectors. They expressed the opinion that – along with the increased supply of labour from Ukrainian refugees – it should help curb wage pressure and over time contribute to reducing inflation. At the same time, other Council members underlined that annual growth in average wages in the enterprise sector had remained lower than consumer price growth for several months and therefore the purchasing power of wages in this sector was falling. However, a judgement was expressed that the labour market situation would hamper the reduction of inflation, due to the marked increase in unit labour costs.

At the meeting it was pointed out that according to the Statistics Poland flash estimate, inflation in Poland had risen to 17.2% y/y in September 2022. Certain Council members drew attention to the acceleration in price growth, including in monthly terms. The majority of 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. At the same time, it was pointed out that inflation was also boosted by enterprises passing rising costs onto the final goods prices and the consequences of the earlier global supply chain disruptions, which also drove up core inflation. Certain Council members underlined that price growth was also driven by demand factors. The Council members also pointed out that the reduction in some of the tax rates as part of the Anti-inflationary Shield was curbing annual inflation index.

While discussing the outlook for inflation in Poland, it was emphasised that according to available forecasts inflation would remain close to the current level in the coming months, and should decline over the next year. It was underlined that the price path would be highly dependent on the decision regarding the Anti-inflationary Shield and the development of regulated prices, including an electricity price freeze up to a certain level of consumption. Meanwhile, it was pointed out that the currently formulated forecasts were still subject to very high uncertainty, including uncertainty about the further course and repercussions of the Russia’s military aggression against Ukraine, the situation in the European commodities markets, and also the scale of the expected global economic slowdown. Certain Council members judged that despite the decline in inflation next year – partly as a result of base effects – price growth, in case of no further monetary tightening, would remain above the inflation target in the medium term. These Council members judged that the disinflation process would be hampered by the heightened inflation expectations of households and enterprises. In this context, they pointed out that the level of real interest rates – taking into account the level of inflation expected next year by these economic agents as well as by professional forecasters – remained negative.

Meanwhile, it was pointed out that hitherto significant NBP interest rate hikes had contributed to a marked rise in interest rates on loans and deposits, which should curb domestic demand pressure and, consequently, gradually limit the possibility of passing rising costs onto the final goods prices. In particular, it was underlined that NBP's monetary policy tightening had curbed lending in the housing loans segment and had contributed to negative annual growth in the total value of consumer loans. This was also accompanied by a change in the structure of household assets, including a shift in some funds from current deposits to term deposits and the purchase of government bonds. By contrast, certain Council members emphasised that the introduction of so-called repayment holidays for all mortgage borrowers was weakening the effect of NBP’s monetary policy tightening.

The majority of the Council members judged that the hitherto significant monetary policy tightening by NBP and the expected slowdown in economic activity growth, which in part stemmed from external shocks, would contribute to curbing demand growth in the Polish economy, which would support a decline in inflation in Poland towards the NBP inflation target. The majority of the Council members pointed out that, given strength and persistence of the current shocks that remained beyond the impact of domestic monetary policy, a return of inflation towards the NBP inflation target would be gradual. Alongside that, it was underlined that in accordance with the *Monetary Policy Guidelines for 2022*, the Council flexibly determined the desirable time necessary to bring the inflation back to the target, as bringing inflation rapidly back to the target might entail significant costs to macroeconomic stability. 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.

However, certain Council members expressed the opinion that in view of the still favourable economic conditions in Poland, the high price growth and the heightened inflation expectations, as well as due to the easing of fiscal policy, the hitherto scale of interest rate hikes was, in their view, insufficient to ensure the return of inflation to the target in the medium term.

The Council decided to keep the NBP interest rates unchanged: the reference rate at 6.75%, 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.

Publication date: 10 November 2022