Minutes of the Monetary Policy Council decision-making meeting held on 9 November 2022

At the meeting, it was pointed out that economic conditions in the external environment of the Polish economy continued to weaken. In 2022 Q3, annual GDP growth in the euro area declined considerably, whereas it stabilised in the United States. It was underlined that the coming quarters were expected to see a slowdown in activity in these economies, despite still very favourable labour market conditions there, as evidenced by data on historically low unemployment and a rapid rise in nominal wages. Yet, the majority of the Council members assessed that with time the deteriorating economic situation in the euro area and the United States would be reflected in higher unemployment, which was also anticipated by the European Central Bank and the Federal Reserve of the United States.

It was assessed that the consequences of Russia's military aggression against Ukraine, including the high prices of commodities, food and production components, as well as monetary policy tightening, continued to negatively affect global economic activity and its prospects. Moreover, it was pointed out that considerable uncertainty about the further impact of those shocks on economic conditions remained, especially in the European economy, despite a certain decline in gas prices observed in Europe in the recent period.

Referring to the recently released data, the Council members highlighted that inflation was still on the rise in many countries, and that this continued to be driven by high commodity prices and persisting, though easing, global supply chain disruptions. Moreover, it was indicated that demand factors and growing labour costs were likewise boosting prices in many economies, which – along with the pass-through of the earlier rises in production costs to consumer prices – were also pushing up core inflation. It was pointed out that in October 2022 the HICP in the euro area had increased above 10%, exceeding market expectations, and in Germany the HICP reached 11.6%. It was observed that in September inflation was on the rise in the majority of Central and Eastern European countries as well. At the same time, in the United States – despite a decline in CPI inflation in October – core inflation continued to rise. The Council members emphasised that high inflation remained a global problem, yet, considerable monetary policy tightening by major central banks together with the fading of the earlier shocks boosting price growth, including a certain decline in prices of some commodities

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and the easing of global supply chain disruptions, would gradually curb global inflationary pressure.

The Council members pointed out that amid persistently high inflation the central banks of the largest economies continued to tighten monetary policy. The majority of the Council members emphasised that many of them, including the Federal Reserve of the United States and in particular the European Central Bank, had started raising interest rates much later than, for example, the central banks of Central and Eastern Europe. At the same time, it was pointed out that monetary policy tightening by the major central banks would be complementary to the decisions taken by the central banks of smaller economies that had already tightened monetary policy significantly.

While analysing the situation in the Polish economy, the Council members judged that the available monthly data pointed to a decline in annual GDP growth in 2022 Q3. The average growth in real retail sales dropped sharply compared to 2022 Q2, which suggested weakening consumer demand. In this context, attention was drawn to the fact that in October 2022 both the current and the leading consumer confidence indices of Statistics Poland were running at a low level. Furthermore, it was pointed out that the average growth in construction and assembly output in 2022 Q3 declined considerably, whereas the situation in the manufacturing sector remained relatively good; yet, also in this sector average output growth was lower than in 2022 Q2, despite the easing of global supply chain disruptions. Moreover, some Council members indicated that the manufacturing PMI had been on the decline for several months, pointing to a slowdown in this sector, with capacity utilisation in manufacturing in October having dropped to the lowest level in several quarters. At the same time, certain Council members emphasised that construction of buildings, as part of construction and assembly output, was at a level markedly higher than the long-term trend, data on construction and assembly output and on retail sales suggested that those indicators were at the level of a long-term average, and that the growth of industrial output was above a long-term average, whereas certain business indicators inferred from survey studies did not always adequately anticipate future changes in economic situation.

While discussing the outlook for economic activity in Poland, some Council members pointed out that in line with the central path of the NBP November projection, GDP growth in 2023 should amount to 0.7% and domestic demand should decline. They indicated that GDP growth would also be relatively low in 2024 and the output gap would be negative from 2022 Q4 until the end of the projection horizon.

The Council members emphasised that the situation in the domestic labour market continued to be very good, which was reflected, in particular, in the very low unemployment rate. At the same time, it was pointed out that real wage growth in the enterprise sector remained negative in September, and that in line with the projection, wages in real terms were likely to decline further in the coming quarters. Moreover, some Council members indicated that business surveys signalled a deterioration in the labour market conditions which – in the opinion of those Council members – would weaken employees' wage bargaining power.

It was pointed out at the meeting that according to the Statistics Poland flash estimate, in October 2022 CPI in Poland increased to 17.9%. Alongside that, it was also stated that domestic inflation was still affected by strong exogenous shocks, including, in particular, global energy and agricultural commodity prices and persisting, though easing, global supply chain disruptions. Attention was paid to the fact that these shocks did not only directly affect prices in Poland, including mainly energy and food prices, but – by boosting corporate costs amid relatively high demand – were passed through to prices of other goods and services. As a consequence, core inflation was also on the rise. Referring to the risk of inflation persisting at an elevated level, certain Council members pointed to rising consumer inflation expectations and higher inflation forecasts by analysts in October 2022. They also indicated a significant role of domestic demand factors and a limited scale of mitigating inflationary pressure by the hitherto conducted monetary policy.

When discussing the outlook for inflation in Poland, it was indicated that in line with the NBP November projection, the annual CPI would remain high in the nearest future and in 2023 Q1 it might even exceed its current level, which would be driven by the effects of the earlier growth in commodity prices and the announced termination of some reduced tax rates implemented under the so-called Anti-inflationary Shield. Yet, according to the available forecasts, as from 2023 Q2 inflation should start to gradually decline to the NBP inflation target (2.5% +/- 1 percentage point) which, in the opinion of the majority of the Council members, should be supported in particular by the strong monetary policy tightening implemented so far by NBP, the effects of which will fully materialise in the coming years due to lags in the monetary policy transmission mechanism. In line with the central path of the November projection – under the assumption of unchanged interest rates – inflation would return to the NBP inflation target in 2025. Yet, certain Council members assessed that inflation might start to decline later than foreseen in the

NBP November projection and that – even assuming the CPI would run in line with this projection – in 2023 and 2024 inflation would run significantly above the level embodied in the July projection.

Referring to fiscal policy in the context of its impact on the economy in 2023, the majority of the Council members pointed out that in line with the NBP estimates, in 2023 the general government structural deficit should be close to the 2022 level. Certain Council members judged that unfavourable conditions for financing the borrowing needs of the state budget should act towards reducing the deficit in 2023.

During the discussion it was argued that the hitherto strong monetary policy tightening by NBP had a significant impact on the situation in the credit market and the structure of private sector financial assets, which should curb domestic demand pressure. In this context, some Council members pointed out that in 2022 Q3 the stock of consumer loans had declined and lending in the housing loans segment had slowed down significantly. Certain Council members also indicated that the strong growth in corporate loans observed in the recent months concerned mainly the largest enterprises and might result from a deterioration in their liquidity position. Other Council members emphasised that the annual growth in PLN housing loans remained positive and that most firms finance investment using their own funds, which should be kept in mind while analysing lending to this sector. Referring to changes in the structure of financial assets of the private sector, it was pointed out that the outflow of funds from current deposits to term deposits and to the Treasury bonds market continued in the recent period. In the opinion of the majority of the Council members, these changes evidenced strong monetary policy tightening in Poland.

The majority of the Council members assessed that the expected weakening of the external economic conditions, together with monetary policy tightening by major central banks, would curb global inflation and commodity prices. The weakening of the global economic conditions would also hamper GDP growth in Poland. Under such circumstances, the hitherto significant monetary policy tightening by NBP would 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 would remain high, and its return to 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. 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. In the opinion of these Council members, considering the scenario of the gradual return of inflation to the NBP inflation target in the coming years as assumed in the November projection, amid the concurrent anticipated deterioration in domestic economic conditions, including in the labour market, it was justified to keep the NBP interest rates unchanged.

However, certain Council members expressed the opinion that given the still favourable – in their view – economic conditions in Poland, including in the labour market, the persistently high price growth and elevated inflation expectations as well as the too sluggish disinflation process in light of the forecasts, the hitherto scale of interest rate hikes was – in their opinion – insufficient to ensure the return of inflation to the target in the medium term and to lower inflation expectations to levels consistent with the medium-term inflation target.

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.

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