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

At the meeting, it was noted that growth of economic activity in the major economies was slowing down. Incoming information signalled, in particular, a further slowdown in economic activity in the euro area, including a possible fall in GDP in quarterly terms in 2022 Q4. On the other hand, GDP was expected to continue to grow in the United States. It was pointed out that although the situation in the labour markets of the largest economies remained favourable, economic activity and its prospects were still negatively affected by the consequences of Russia's military aggression against Ukraine, including the still high commodity prices, as well as the global monetary policy tightening. This was accompanied by deteriorating business conditions in China, to a large extent due to the pandemic situation and the pandemic restrictions imposed there. Moreover, some Council members observed that the available forecasts for 2023 suggested a marked decline in GDP growth in the largest developed economies compared to 2022. It was underlined that this also applied to Germany, Poland's largest trading partner, where – like in the euro area as a whole – a recession could not be ruled out in 2023. At the same time, it was emphasised that uncertainty persisted about the prospects for global economic growth.

The Council members indicated that in many economies inflation remained at the highest level for decades. Attention was drawn to the fact that core inflation remained high in most countries as well. At the same time, it was pointed out that in the United States CPI inflation had been slowing down for several months, while in the euro area the HICP index had declined in November for the first time in many quarters. This was supported by a fall in the prices of some commodities, including gas prices in Europe, and oil and agricultural commodities in global markets, as well as the gradual easing of the supply chain disruptions and a decline in freight prices. Under such conditions, in many countries – among others in the United States and the euro area, including Germany – the annual growth of producer prices had also begun to decrease, while in China it had fallen to negative values. The Council members were of the opinion that these factors would slow down growth in consumer prices around the world, although the secondary effects of the earlier shocks would continue to have an impact on inflation, and particularly on core inflation.

Narodowy Bank Polski ul. Świętokrzyska 11/21 00-919 Warszawa, Poland phone +48 22 185 28 88 sekretariat.rpp@nbp.pl

It was pointed out that many central banks were continuing to tighten monetary policy, although – as some Council members argued – further interest rate hikes by the major central banks would most likely be smaller in scale than the previously implemented increases, as was indicated also by market expectations. As a result, in the period preceding the meeting of the Council, long-term bond yields in the United States and the largest euro area countries had declined. At the same time, it was noted that following previous large hikes in interest rates, most central banks in Central and Eastern European countries had recently kept interest rates unchanged. On the other hand, certain Council members underlined that the Federal Reserve of the United States was indicating the possibility of raising interest rates to a level higher than expected in previous months, while with regard to the ECB, a reduction in the Eurosystem balance sheet in 2023 could be expected, which would additionally tighten monetary conditions in the euro area. Moreover – in the opinion of these Council members – in the case of many economies a reduction in interest rates should not be expected in the coming years.

While analysing the situation in the Polish economy, the Council members pointed out that in 2022 Q3 annual GDP growth had slowed down to 3.6% (compared to 5.8% in 2022 Q2). It was stressed that household consumption growth had fallen to 0.9%, while fixed capital formation growth had fallen to 2.0%, and that investment growth of large and medium-sized enterprises had declined, which was evidence of a sharp slowdown in domestic demand growth. On the other hand, the contribution of net exports and changes in inventories to GDP growth had increased. It was observed that monthly data for October and business confidence indicators for November signalled a further slowdown in economic activity in 2022 Q4, and in particular, that real retail sales growth and industrial production growth had been lower than on average in 2022 Q3. It was pointed out that the weakening of economic conditions was related, among others, to the slowdown in global economic growth, but was also a result of the fall in real household income, especially since it was accompanied by weak economic agents' sentiments, and took place following strong monetary policy tightening. At the same time, it was noted that growth in construction and assembly output in October 2022 had been close to the average for 2022 Q3, although some Council members judged that the sharp fall in newly granted housing loans would lead to a significant decline in housing construction in the coming period. On the other hand, certain Council members expressed the view that an analysis of selected "soft" economic indicators suggested that the recession phase was ending and that the economy was entering the recovery phase.

The Council members judged that the situation in the labour market remained good. At the same time, some Council members drew attention to the fact that the fall in total employment in annual terms observed in the LFS data for 2022 Q3, the results of the PMI surveys indicating plans to reduce employment, and the growing concerns of households about the rise in unemployment suggest a deteriorating labour market outlook. When referring to data for 2022 Q3, certain Council members pointed out that the public sector had a larger negative contribution to the annual fall in total LFS employment than the private sector. It was also underlined that despite the increase in nominal wages, real wage growth was negative.

At the meeting it was pointed out that according to the Statistics Poland flash estimate, CPI inflation in Poland had declined to 17.4% y/y in November 2022. It was noted that the slowdown in inflation had stemmed from the fall in fuel prices due to the decline in global oil prices and the appreciation of the zloty. It was judged that the probable fall in heating fuel prices, in particularly of coal, may also have been conducive to curbing inflation. At the same time, it was underlined that consumer price growth remained high, which was largely due to the impact of sharp external shocks, related predominantly to global commodity prices, which – amid still relatively high demand – had prompted companies to pass higher costs onto the prices of consumer goods. Combined with the persisting effects of global supply chain disruptions – despite their ongoing easing – this was also boosting core inflation. However, some Council members pointed out that the strength of these factors might be beginning to weaken, which was signalled by the gradual decline in the PPI index. Moreover, these Council members drew attention to a decline in consumer inflation expectations in November 2022 and a downward revision of financial analysts' forecasts of inflation in 2024. In turn, certain Council members underlined that consumer inflation expectations remained very high.

When discussing the outlook for inflation in Poland, it was indicated that inflation was likely to pick up at the beginning of 2023 due to the anticipated increase in energy prices, the planned withdrawal of some reduced tax rates under the so-called Anti-Inflation Shield and the base effects. Yet, according to the available forecasts, including the November NBP projection, as from 2023 Q2 inflation should start to gradually decline to the NBP inflation target (2.5% +/-1 percentage point). In the opinion of the majority of the Council members, the disinflation process would be supported by the strong monetary policy tightening implemented so far by NBP, the effects of which would fully materialise in the coming quarters due to lags in the monetary policy transmission mechanism. The disinflation process would also partly be the effect of the monetary policy tightening by major central banks – weakening global economic conditions – coupled with the expected fading impact of the supply shocks occurring in recent quarters and the easing of global supply chains' disruptions. It was emphasised that the decline in global agricultural commodity prices in recent months should soon translate into slower food price growth in Poland.

During the discussion the majority of the Council members argued that the strong monetary policy tightening hitherto implemented by NBP had a significant impact on the situation in the credit market. It was pointed out, in this context, that lending to households had slowed down significantly, and the stock of consumer and zloty housing loans had markedly declined since the beginning of the year. A decline in the M3 aggregate, in real terms, was also brought to attention, which – in the opinion of the majority of the Council members – was a sign of a strong monetary policy tightening in Poland, which would contribute to lower inflation, albeit with a lag. Furthermore, it was emphasised that even taking into account the so-called loan repayment holidays, the impact of higher debt service costs on household disposable income would be greater in 2023 than in 2022, which meant a further tightening in monetary conditions despite the NBP interest rates being kept unchanged. In contrast, other Council members pointed out that the interest rate on housing and consumer loans to households had risen by less than the NBP reference rate.

The majority of Council members underlined that given the assessments based on the November projection, the structural deficit of the general government sector in 2023 would remain close to its 2022 level, which suggested a neutral fiscal policy stance. Other Council members observed that the scale of fiscal measures aimed at alleviating the rise in food and energy prices charged to households in Poland – in relation to GDP – was significant in 2022 and could also be expected to be large in 2023.

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 the 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 the Council flexibly determined the desirable time necessary to bring 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 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 expected scenario of the gradual return of inflation to the NBP inflation target in the coming years, amid the deterioration in domestic economic conditions, including in the labour market, and the incoming signals of the global inflationary pressure slowing down, 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, 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. In the opinion of those Council members, the disinflation process as foreseen by the forecasts, and particularly the decline in core inflation, would be too slow.

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: 5 January 2023