Minutes of the Monetary Policy Council decision-making meeting held on 4 January 2023

At the meeting, it was noted that global economic conditions deteriorated in recent months. Incoming data signalled, in particular, that in 2022 Q4 economic activity in the euro area, Poland's major trading partner, might have slowed down. Some members of the Council pointed out that prospects for economic activity in the euro area, including Germany, also for 2023 were unfavourable and GDP growth might be close to zero. Slowdown in global economic growth was largely the effect of high energy prices, elevated uncertainty and global monetary policy tightening. This was accompanied by uncertainty related, among others, to consequences of China's moving away from pandemic restrictions.

The Council members pointed out that in recent months inflation in many economies started to decline. This was reflected, in particular, in the latest data on HICP inflation for some of euro area economies. Yet, it was emphasised that global inflation remained high. Some Council members highlighted high core inflation in most countries. The Council members stressed that the decline in inflation would be supported by the fall in the prices of some commodities, including prices of gas in Europe and prices of oil and agricultural commodities in the global markets, as well as the gradual easing of supply chain disruptions and a decline in freight prices.

It was pointed out that many central banks were continuing to tighten their monetary policy. This concerned, in particular, the Federal Reserve of the United States and the European Central Bank which raised interest rates for another time, although to a lesser extent than before. At the same time, it was indicated that these banks started their interest rate hikes much later than NBP. Certain Council members also highlighted that the effects of monetary policy tightening in the United States and the euro area would only materialise in the coming quarters. Other Council members, in turn, pointed out that communication of major central banks suggested further monetary policy tightening, which – given high levels of core inflation and elevated nominal wage growth – may reflect their concerns about more persistent inflation. Alongside that, it was noted that following previous large interest rate hikes, most central banks in non-euro area countries of Central and Eastern Europe had recently kept interest rates unchanged.

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While analysing the situation in the Polish economy, the Council members indicated that in 2022 Q4 economic conditions continued to deteriorate. It was pointed out that although retail sales rose faster in November than in October, its pace was still sluggish. Industrial production growth in November was the weakest in many quarters. In turn, growth in construction and assembly output in November was close to the October figure, whereas some Council members emphasised that growing costs of financing were strongly undermining the outlook for the construction sector as indicated by, among others, the declining number of home construction starts. At the same time, it was pointed out that in December 2022 selected economic indicators rose somewhat, yet remained low. In effect, it was judged that the annual GDP growth in 2022 Q4 slowed down markedly for another consecutive quarter. It was also underlined that the coming quarters would probably see a further decline in GDP growth, which would include low growth in both consumption and investment.

In the opinion of the Council members, the situation in the labour market remained good, which was reflected, in particular, in the low unemployment rate and a relatively strong rise in nominal wages. However, it was pointed out that growth in nominal wages was lower than inflation, which led to a decline in real wages and had a negative impact on growth in consumption demand. Some Council members also noted the fall in the LFS employment in 2022 Q3 as well as the results of Statistics Poland studies and NBP surveys signalling weakening of labour demand in the Polish economy, although situation differed across sectors.

At the meeting, it was pointed out that the annual CPI in Poland in November 2022 declined to 17.5%. It was indicated that the fall in the annual CPI inflation was mainly driven by declining growth in the energy prices, including declining prices of heating fuels and fuels for private means of transport, as well as the base effects. Alongside that, core inflation net of food and energy prices rose to 11.4% in November 2022, which was largely the result of delayed effects of the rise in prices of energy, commodities, materials and intermediate goods. The persisting strong cost pressure also contributed to a slight rise in the annual growth of food prices. The Council members assessed that December 2022 might be expected to see a further fall in CPI inflation. It was pointed out that November 2022 saw another decline in PPI inflation, which might evidence the lessening of cost pressure in the economy. It was also emphasised that in December inflation expectations of both households and businesses declined.

When discussing the outlook for inflation in Poland, the Council members indicated that inflation would probably increase in the early months of 2023, due to the withdrawal of some of the reduced tax rates introduced under the so-called Anti-inflationary Shield and the impact of the previous energy price rises. At the same time, the majority of the Council members underlined that in light of available forecasts and assuming no further shocks, inflation should gradually decline from 2023 Q2, converging towards the medium-term NBP target (2.5% +/- 1 percentage point). In the opinion of these Council members, the disinflation process would be supported by the hitherto significant monetary policy tightening by NBP, whose full macroeconomic effects would be increasingly visible, as well as the tightening of the global financing conditions, which acts towards slower global economic activity and lower commodity prices. Some Council members additionally observed that incoming data hinted at the possibility of inflation running somewhat below the path of the November projection in the coming quarters. In turn, certain Council members emphasised that in line with current forecasts, the average annual inflation in 2023 would be only slightly lower than in 2022, while the average annual core inflation would be higher in 2023 than in the previous year.

During the meeting, it was pointed out that the strong monetary policy tightening conducted by NBP so far had an impact on monetary conditions in the Polish economy. In this context it was observed that lending to households had slowed down, which was particularly visible in a decline in debt arising from housing and consumer loans. Some Council members underlined that the NBP interest rate hikes had also been reflected in substantially higher rates on loans in recent quarters, including on corporate loans, and a change in the dynamics and structure of monetary aggregates, including in a rise in term deposits and a decline in cash.

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 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 and financial stability. The decrease in inflation would be faster if supported by an appreciation of the zloty exchange rate, which, in the Council's assessment, would be consistent with the fundamentals of the Polish economy. In the opinion of the Council, 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.

Certain Council members expressed the opinion that given the persistently high price growth and elevated inflation expectations, the hitherto scale of interest rate hikes by NBP was 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.

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