Minutes of the Monetary Policy Council decision-making meeting held on 8 February 2023

At the meeting, it was pointed out that some of the recently incoming data from abroad had proved better than expected and that forecasts of GDP growth for 2023 for the major economies had been revised slightly upwards, although they continued to signal a slowdown in GDP growth compared to 2022 and their risks were skewed to the downside. At the same time, it was observed that global economic conditions remained weak as indicated by, among others, the slowdown in GDP growth in 2022 Q4 in the largest economies. This was accompanied by uncertainty related to, among others, a possible escalation of the war in Ukraine, and to the consequences of China's departure from its restrictive pandemic policies.

The Council members pointed out that in recent months inflation in many economies had begun to decline, although it remained high. It was emphasised that the fall in inflation had been supported by the decline in energy commodity prices and the easing of global supply chain tensions, as well as the weakening of demand. As a result, in December 2022, inflation – including core inflation – continued to decline in the United States. In the euro area, the headline consumer inflation had also fallen, while core inflation had not yet begun to decline.

It was pointed out that many central banks were continuing to tighten monetary policy. In particular, this was the case of the Federal Reserve of the United States and the European Central Bank, which had once again increased interest rates in February. Some Council members underlined that these banks had begun interest rate hikes much later than NBP, and that the total scale of the hitherto monetary policy tightening in the United States and the euro area was significantly smaller than in Poland. Other Council members pointed out that although the Fed and ECB interest rates were lower than the NBP rates, consumer inflation in the United States and the euro area was also lower. At the same time, certain Council members observed that following previous large interest rate hikes, most central banks in the Central and Eastern European countries outside the euro area had recently kept interest rates unchanged.

While analysing the situation in the Polish economy, the Council members pointed out that in line with the Statistics Poland preliminary estimate, GDP growth in 2022 had slowed down to 4.9% (from 6.8% in 2021). It was emphasised that these data were

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somewhat better than anticipated in NBP's November projection, yet they confirmed that growth in 2022 had gradually weakened. GDP growth in 2022 Q4 – implied from the Statistics Poland preliminary data for the whole of 2022 – was approx. 2%. The Statistics Poland preliminary data also indicated that private consumption had probably declined, despite increased sales of goods due to the inflow of Ukrainian refugees to Poland. Some Council members also underlined that monthly data for December on retail sales and industrial as well as construction and assembly output, which showed a marked decline in growth of these categories, likewise indicated a slowdown in economic activity at the end of 2022. At the same time, certain confidence indicators from the beginning of 2023 had improved, although they remained low, and suggested a further deceleration in GDP growth in annual terms. Some Council members pointed out that consumption data were particularly important in the context of economic developments, because – should the decline in consumption in 2022 Q4 be confirmed – it would signal a reduction in consumer demand pressure.

When assessing the outlook for the Polish economy, the majority of Council members drew attention to the fact that consumption in the coming quarters might continue to run at a low level, curbed by the earlier and current increase in prices, including energy prices, high interest rates and the persistence of relatively weak sentiment. These Council members observed that high energy prices, high interest rates and the persisting uncertainty would also curb investment activity. Moreover, they pointed out that according to the Statistics Poland survey, in January 2023 capacity utilisation in manufacturing was the lowest since 2015, excluding the two quarters of the pandemic crisis of 2020. Amid global monetary tightening and low activity growth abroad, export growth might also be limited. However, in the opinion of some Council members, Poland might benefit from the shifting of production closer to the destination countries, i.e. so-called nearshoring, particularly as a supplier of cheaper substitutes, as well as from the further growth of exports to Ukraine. In the opinion of the majority of the Council members, taking into account all these factors, GDP growth in Poland in 2023 would be lower than in previous years. Yet, certain Council members judged that reduced consumption could not be expected to be a disinflationary factor in the coming quarters.

The Council members pointed out that despite weaker economic conditions, the situation in the labour market remained good, as evidenced by low unemployment rate and a steadily rising employment in the enterprise sector. However, some Council members indicated that the survey data from both the Statistics Poland and the NBP signalled a gradual weakening of demand for labour in the Polish economy. At the same time, wage growth in the enterprise sector in 2022 Q4 slowed down and in December stood at 10.3%. It was underlined that the slowdown in wage growth was seen in almost every sector. Moreover, it was indicated that nominal wage growth was lower than inflation. Alongside that, certain Council members stressed that in most of market services sector wage growth was still very high, which – in their opinion – was contributing to continued strong propensity of enterprises to raise prices, despite a slight decline in firms' declarations of further increases in the prices of their own products in the recent period.

At the meeting, it was indicated that the annual CPI in Poland in December 2022 had declined to 16.6%. It was observed that like in November, this was driven primarily by slower energy price growth. Moreover, some Council members pointed to the fact that in December 2022 also the annual food price growth had declined – for the first time since February 2021. In turn, core inflation net of food and energy prices had increased to 11.5%. It was noted that PPI inflation had declined again, which – along with the rising percentage of companies surveyed by NBP expecting producer price growth to slow down – might denote weakening cost pressure in the economy. Certain Council members pointed out that the recent decline in sales profitability might also be evidence of firms having less leeway to continue passing through cost increases into their product prices. It was additionally emphasised that in January households' inflation expectations had decreased further, although – as certain Council members observed – this was mainly due to a decline in the level of perceived inflation.

When discussing the outlook for inflation in Poland, the Council members pointed out that the CPI index would probably increase in the early months of 2023, in line with what forecasts had indicated for a long time. This would mainly result from the withdrawal of some of the reduced tax rates under the so-called Anti-inflationary Shield, the rise in energy prices and the base effect related to the reduction, a year earlier, in the VAT rate on food. At the same time, the majority of the Council members emphasised that according to the available forecasts, from 2023 Q2 inflation should gradually decline towards the medium-term NBP target (2.5% +/- 1 pp.).

The majority of the Council members observed that the decline in the annual price growth in the subsequent months of 2023 would be supported by the base effect, as well as weaker upward pressure on prices driven by the fading of the previous supply shocks and the weakening in economic conditions, which, along with the decline in real wages, would constrain enterprises' capacity to pass the rising costs on to product prices. In the opinion

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of these Council members, the disinflation process would be supported by the materialisation of the effects of the hitherto substantial monetary policy tightening by NBP, combined with tighter global financial conditions curbing both global economic activity growth and commodity prices. These Council members emphasised that although core inflation would decrease with a delay, this would largely be due to the persisting effects of the earlier shocks, including the cost ones. The Council members observed that from mid-2023, core inflation would account for most of the overall inflation.

The impact of the strong monetary policy tightening by NBP on monetary conditions in the Polish economy was also highlighted. In this context, it was noted that lending, particularly to households, had slowed down very substantially. Furthermore, it was argued that even taking into account the so-called loan repayment holidays, the impact of higher mortgage 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. Some Council members also emphasised that the hitherto increases in NBP interest rate had translated into a decline in the more liquid components of the monetary aggregates, including cash. Certain Council members pointed to the announced easing of the supervisory recommendations on credit scoring terms for certain loans. However, other Council members stressed that with regard to variable rate loans, the recommendation on higher credit buffor was uphold.

The majority of the Council members assessed that the weakening in the external economic conditions, together with monetary policy tightening by major central banks would curb global inflation and commodity prices. The deterioration in global economic conditions was also hampering economic 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 previous 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 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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