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

At the meeting it was pointed out that global economic activity growth remained subdued. It was also observed that in the euro area – despite a certain improvement in recent months – economic conditions remained weak.

The Council members pointed out that in the recent period global negative supply shocks had gradually eased. It was emphasized that in recent months prices of energy commodities had fallen, although they remained considerably higher than before the pandemic. At the same time, disruptions in global value chains were easing. It was pointed out that the fading of these shocks was supporting global economic activity and reducing inflationary pressures. Nevertheless, according to available forecasts, in 2023 GDP growth in major economies would be relatively weak. At the same time, attention was drawn to the uncertainty about the global macroeconomic outlook due, among others, to the consequences of China's departure from the restrictive epidemic policy.

It was pointed out that in the recent period CPI and HICP inflation had declined in the United States and in the euro area, respectively, whereas in certain Central and Eastern European countries consumer price growth had picked up. Global inflation is forecast to fall due to the easing of the negative supply shocks and a slowdown in consumption growth observed in many countries. It was also emphasised that according to forecasts, inflation would decline gradually, especially core inflation, which remained high and in many countries had not yet started to fall. Certain Council members also drew attention to the uncertainty about the pace of disinflationary processes in the euro area and future developments of service prices in the United States.

At the meeting it was pointed out that the Federal Reserve of the United States and the European Central Bank continued to increase their interest rates, while certain Council members pointed out that representatives of those central banks were indicating that it was necessary to bring inflation down relatively fast. Other Council members underlined, however, that these banks had launched interest rate hikes much later than NBP, and that the total scale of the monetary policy tightening so far in the United States and the euro area was significantly smaller than in Poland. At the same time, it was indicated that central banks in Central and Eastern Europe – following the earlier strong monetary policy tightening – were now keeping interest rates unchanged. It was observed that amid

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weaker economic conditions and the forecast decline in inflation, an increasing number of central banks were putting monetary policy tightening on hold.

While analysing the situation in Poland, the Council members pointed out that – amid the weakening of economic growth around the world – activity in Poland had also slowed down. In 2022 Q4, real GDP growth declined to 2.0% y/y. Economic growth was lowered by reduced consumption demand. At the same time, investment activity continued to increase. In this context the majority of the Council members judged that the observed structure of GDP growth should support the disinflationary processes. It was pointed out that the available data for January 2023 – including data on industrial output and retail sales – corroborated the weakening of economic conditions.

While discussing the outlook for economic activity, Council members pointed out that according to the March projection in 2023 GDP growth would be low amid weaker consumption. It was observed that economic activity would continue to be curbed by the consequences of the earlier negative supply shocks, slowdown in the global economy and the monetary policy tightening implemented so far. In line with this projection, in the years 2024-2025 economic growth would pick up, however, it was observed that this would be a gradual process. It was emphasised that throughout the entire projection horizon the output gap would be negative. Attention was also drawn to the uncertainty about the forecast growth in economic activity. In this context some members of the Council pointed to a higher likelihood of GDP growth running below the central path of the projection, although certain Council members stressed that higher economic growth was possible.

The Council members pointed out that the robust labour market situation continued, although employment growth in the enterprise sector had slowed down slightly. According to the LFS data, the number of working persons in the economy in 2022 Q4 remained close to the level recorded a year before, while it declined in the private sector. It was pointed out that the annual growth in average nominal wages in the enterprise sector had increased in January 2023. Certain Council members pointed out that the rise in nominal wages exceeded labour productivity growth. At the meeting it was assessed that labour market adjustment to the weakened economic conditions occurred through real wages rather than rising unemployment which was a favourable scenario from the point of view of macroeconomic stability and long-term growth.

At the meeting it was pointed out that according to the Statistics Poland preliminary data – not taking into account the annual change in the weights in the basket of consumer goods and services – annual CPI inflation in January 2023 had increased compared to December 2022 due to a rise in VAT rates on energy products and the adjustment of some prices of energy carriers. It was pointed out that core inflation might also have increased slightly, yet this was judged not to be an effect of accelerating demand as demand growth was on the decline. By contrast, annual food price growth had declined again. At the same time, it was pointed out that in the recent period inflation expectations of consumers and businesses had fallen considerably, although certain Council members indicated that the structure of responses to the survey questions had improved only recently.

While discussing the outlook for inflation in Poland, it was pointed out that according to the available forecasts, February 2023 probably saw the peak of CPI inflation. According to the March projection and other forecasts, in 2023 Q2 price growth would start to systematically decline. It was emphasised that the decline in inflation would be driven not only by the statistical base effect, but also by weakening price pressures. It was also observed that, on the one hand, demand was weakening, limiting the room for price increases, and, on the other hand, the growth in costs was slowing down, which was reflected, among others, in falling PPI inflation. At the same time, it was pointed out that the effects of the earlier shocks would fade away gradually, given the nature and the scale of these shocks.

According to the projection, CPI inflation in Poland will continue to decline also in the coming years. Certain Council members stressed that the projection was prepared under the assumption of unchanged NBP interest rates. The majority of the Council members underlined that at the end of the projection horizon price dynamics should be consistent with the NBP inflation target. It was also observed that core inflation would decrease in the projection horizon. Certain Council members pointed out, however, that from mid-2023 core inflation would account for most of the overall inflation. Some Council members pointed to the uncertainty about the outlook for inflation, with certain Council member highlighting the possibility of price growth running above the central path of the projection, while others were flagging the possibility of a faster decline in inflation.

During the meeting the impact of NBP's strong monetary policy tightening on monetary conditions was highlighted. It was pointed out that growth in monetary and credit aggregates had slowed down considerably, including a decline in households lending stock. Certain Council members pointed out that the value of newly granted loans was significant in their view. At the same time, some Council members remarked that the easing of the supervisory recommendations regarding credit underwriting criteria for certain types of loans might contribute to a slight rebound in lending.

The majority of the Council members assessed, that the weakening of the external economic conditions, together with a decline in commodity prices, would continue to curb global inflation, which would contribute to lower price growth in Poland. Decline in domestic inflation would be supported by the weakening in GDP growth, including consumption, amid significant decrease in credit growth. As a result, the majority of the Council members assessed that the earlier strong monetary policy tightening undertaken by NBP would lead to a decline in inflation in Poland towards the NBP inflation target. At the same time, given strength and persistence of the recent shocks that remain beyond the impact of domestic monetary policy, the return of inflation to the NBP inflation target would be gradual. Such an assessment was supported by the March projection of inflation and GDP. 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 prospects for inflation and economic activity.

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