Minutes of the Monetary Policy Council decision-making meeting held on 5 April 2023

At the meeting it was pointed out that global economic conditions remained subdued. In particular, it was indicated that economic growth in the euro area had probably been close to zero in 2023 Q1, and according to available forecasts would remain low throughout the whole of the year. However, attention was drawn to the fact that the scale of the slowdown in global activity was smaller than previously expected.

The Council members pointed out that in recent months global commodity prices – including both energy and agricultural commodities – had fallen, although oil prices had risen in response to the decision of the OPEC+ at the beginning of April to reduce oil production. Moreover, it was underlined that the global supply chain disruptions were easing, which supported global economic activity, and at the same time lowered inflationary pressure.

Some Council members drew attention to the turmoil in the banking sector in the United States and Europe as a new risk factor for the economic conditions abroad. This turmoil might translate into an additional tightening of bank lending in the affected countries, which could adversely impact their GDP growth prospects. As a result, in the past weeks market expectations regarding interest rate developments in the coming quarters, among others in the United States and the euro area, had declined significantly, which was consistent with a certain softening of communication by the Federal Reserve of the United States and the European Central Bank regarding their monetary policy prospects.

It was noted that in the recent period consumer price growth in the United States and the euro area had declined, although – as certain Council members pointed out – due to the scale of the earlier shocks, their secondary effects and relatively fast nominal wage growth, the process of inflation returning to central banks' targets in the major economies would be slow, as signalled also by the still high core inflation in most economies. In this context, it was underlined that inflation in 2024 would also be above the inflation targets of the Fed and the ECB. Certain Council members judged that – particularly in view of the lower market expectations regarding interest rate developments in the major economies and the increase in oil prices in the past days – this might lower the anti-inflationary impact of the decline in inflationary pressure abroad on prices in Poland. Some Council members

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highlighted that inflation – despite its decline – remained exceptionally high in the countries of Central and Eastern Europe.

When referring to the current economic situation, some Council members judged that the incoming data confirmed the economic slowdown. They observed that, in particular, in February industrial output had declined and retail sales were 5% lower than a year ago, which – although partly resulted from base effects – signalled a further and perhaps stronger than previously expected fall in consumption at the beginning of 2023. These Council members also drew attention to the slight decline of the PMI for Polish manufacturing in April, which had been running below 50 points for many months. Meanwhile, certain Council members were of the opinion that already in 2023 Q2 a gradual recovery in economic activity could be expected that may accelerate in 2023 Q3.

It was pointed out that the labour market situation remained good and the unemployment rate in Poland was among the lowest in the European Union (second lowest). However, some Council members observed that gradually weakening demand for labour was reflected in a significant fall in the number of new jobs and vacancies in the economy in 2022 Q4 as well as in a slowdown in annual growth of employment in the enterprise sector in February 2023. Alongside that, in February nominal wage growth in the enterprise sector was close to the January figure, which was partly the result of further payments of bonuses in mining and the increase in the minimum wage. Real wages, however, continued to decline, which should support disinflation. Other Council members pointed out that although February had seen a fall in employment in the enterprise sector (also in seasonally adjusted month-to-month terms), the fall had been small. These Council members also judged that nominal wage growth – even excluding mining and the increase in the minimum wage – was still high, particularly in certain sections.

At the meeting it was pointed out that – according to Statistics Poland preliminary data – in March 2023 annual CPI inflation declined by over 2 percentage points compared to February (to 16.2% from 18.4% in February), which largely reflected the fall in energy price growth. In turn, limited supply of vegetables and meat continued to boost food prices. As a result, in March the growth in food prices had not yet fallen, although some Council members expressed the opinion that food price growth should soon slow down. It was underlined that preliminary estimates also indicated an increase in core inflation, which – according to NBP forecasts – should soon begin to gradually decline. Certain Council members emphasised that the CPI index in month-to-month terms and the estimated level of core inflation in March remained high. Moreover, these Council members drew attention to the fact that the fall in the annual inflation rate in March 2023 had been driven by the base effect.

When assessing the inflation outlook, the majority of the Council members were of the opinion that price growth would keep declining markedly, continuing the initiated process of gradual disinflation. It was underlined that in view of the significant fall in consumption, half of the firms surveyed by NBP had declared difficulties in passing on rising costs to the prices of final goods, whilst until now some enterprises had conducted a price policy aimed not only at compensating rising costs, but also at increasing margins. However, some Council members argued that the price dynamics of certain services could be a factor that would hamper the fall in inflation. At the same time, it was underlined that inflation expectations of enterprises had been declining for some time, which should support expectations of a fall in inflation in the following quarters. In addition, certain Council members pointed to the further decline in annual growth of producer prices, which would also support the disinflation process. Alongside that, other Council members observed that some of the incoming data signalled greater persistence of inflation, which increased the risks to lowering it towards the target in the following years. These Council members pointed out that in month-to-month terms, the PPI index excluding goods related to energy was slightly positive.

During the discussion attention was drawn to the significant impact of the strong monetary policy tightening by NBP on the monetary conditions. It was pointed out that as a result of the marked increase in the cost of debt, a very substantial decline in lending growth had taken place, including a fall in the stock of household loans, as well as a decline in the M1 monetary aggregate alongside an increase in term deposits. In this context, certain Council members observed that the interest rate hikes conducted so far were significantly impacting the financial situation of borrowers. In effect, keeping interest rates at their current levels should mitigate the risk of excessive growth of debt in the economy. However, certain Council members underlined that the estimated real interest rates were negative, which – in the opinion of these Council members – might hamper the lowering of inflation. Other Council members also pointed out that in previous months – following the earlier strong growth – interest rates on certain types of loans had declined somewhat.

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. The decline in domestic inflation would be supported by the weakening of GDP growth, including consumption, amid a 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 the strength and persistence of the earlier shocks, which remained beyond the impact of domestic monetary policy, the return of inflation 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. The majority of the Council members recognised that, taking into account the above conditions, and in particular the expected gradual decline in inflation, the weakening of the domestic economic conditions, including the fall in consumer demand, decline in inflation expectations, low growth in monetary aggregates, including low lending growth, and also the decline in inflationary pressure abroad combined with the risks to the global economic outlook, and taking into account the earlier strong monetary policy tightening, 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 inflationary 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 pointed out that further decisions of the Council would depend on incoming information regarding prospects for inflation and economic activity.

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