Minutes of the Monetary Policy Council decision-making meeting held on 10 May 2023

At the meeting, it was pointed out that global economic conditions remained subdued, as confirmed by GDP growth data for 2023 Q1 in the United States and the euro area. In particular, it was observed that economic growth in the euro area was only slightly positive. In contrast, economic activity had accelerated in China after the country's departure from its previous zero-Covid policy. However, the Council drew attention to the fact that according to the forecasts by international institutions, global GDP growth would run below its long-term average in 2023 and was expected to remain moderate in 2024. At the same time, some Council members argued that while the energy shock was fading, turmoil in the US banking sector had become a risk factor to global economic conditions.

The Council members indicated that concerns about global activity levels were reflected in the declining prices of many energy commodities, including oil – despite the decision of OPEC+ to reduce its output. Some Council members also observed that the prices of agricultural commodities had fallen in recent months, with certain council members judging that further developments in food prices were subject to considerable uncertainty.

The Council members pointed out that in early May 2023, the US Federal Reserve and the European Central Bank raised interest rates by 25 bps. Certain Council members were of the opinion that the Fed and the ECB, while probably approaching the end of the monetary policy tightening cycle – in particular, due to the turmoil in the US banking sector – were concerned about the persistence of inflation.

It was emphasised that global inflation was declining, but that the process was gradual, which was associated with the hitherto high level of core inflation in most countries, including the United States and many European economies. The high core inflation was judged to result from both the earlier sharp cost increases and from an increase in corporate margins, as, amid favourable labour market conditions and demand growth, some businesses had raised prices by more than was implied by the rising costs. The majority of the Council members expressed the opinion that, as the supply shocks receded and demand growth slowed down, core inflation might be expected to gradually decline. Certain Council members argued that price-setting processes, including the frequency and characteristics of price changes, were presently different than before the pandemic – i.e.

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during a period of low inflation – which might add to the persistence of inflation in many countries. In their view, a similar effect could materialise due to higher demand for services, entailing an increase in demand for workers in this sector, reflected in the steep growth of their wages and high services price inflation. These members observed, however, that it was not known how persistent these processes would prove to be.

When referring to domestic economic conditions, some Council members judged that incoming data for 2023 Q1 confirmed a slowdown in GDP growth, including a marked fall in consumer demand. They observed, in particular, that the declines in retail sales and industrial output had deepened in March, and a further decrease in the manufacturing PMI in April suggested a weakening in the industrial sector. These members pointed out that construction and assembly output had also fallen in March. At the same time, the majority of the Council members were of the opinion that economic recovery could be expected in the second half of 2023.

It was pointed out that the labour market situation continued to be good, yet some Council members emphasised that employment growth in the enterprise sector was gradually slowing down, and nominal wage growth had declined in March. Alongside that, certain Council members observed that employment in the service sector was mostly rising, and in its selected sections – as well as in manufacturing – nominal wage growth was still very high in their opinion. At the same time, the increase of the minimum wage since the beginning of 2023 had boosted household income. According to these Council members, the ratio of wages to labour productivity continued to be high, as did the share of businesses experiencing wage pressure, despite having fallen somewhat.

At the meeting, it was pointed out that according to Statistics Poland preliminary data, annual CPI inflation had declined to 14.7% in April (from 16.1% in March and 18.4% in February), which was primarily due to the slower annual food price growth. The annual growth in energy prices also slowed down, yet again, and preliminary estimates suggested that core inflation (excluding food and energy prices) had decreased slightly in April as well. The Council members observed that disinflation was evident in industrial producer prices, whose growth had declined markedly in recent months. The majority of the Council members also highlighted the continued decline in households' inflation expectations as well as firms' declarations, according to which it was increasingly difficult for businesses to raise prices in response to the rising costs. According to these Council members, the above factors were behind a further expected decline in inflation, including core inflation. The majority of the Council members judged in this context that the disinflation process was supported by the recently observed appreciation of the zloty.

Certain Council members were of the opinion that price-setting processes in Poland, like in other countries, were currently following a different pattern than in a low inflation period, and that these processes were affected by the rising role of the service sector, which increased the risk of inflation persistence. In the opinion of these Council members, the decline in the annual CPI index reflected the base effects, and the impact of the previous NBP interest rate hikes was not sufficient, particularly as a considerable share of businesses and consumers were still expecting high inflation.

When assessing the inflation outlook, the majority of the Council members were of the opinion that consumer price growth would keep declining markedly, continuing the initiated process of disinflation. Alongside that, some Council members expressed the opinion that the decline in inflation might be somewhat slower than the path outlined in the March projection. In this context, these Council members drew attention to many persisting uncertainty factors. At the same time, the majority of the Council members judged that the prospect of inflation returning to the target over the projection horizon had not changed. However, certain Council members argued that, in their opinion, inflation would not fall to the level of the NBP inflation target by the end of 2025.

Some Council members underlined that the high level of NBP interest rates – alongside the earlier price increases – was a factor limiting the propensity to spend. The effects of high interest rates could be seen, among others, in the marked decline in the M1 monetary aggregate and slower growth of credit debt, including the fall in stock of housing loans. In the opinion of these Council members, this confirmed the strong impact of NBP's monetary policy on the economy. These Council members judged that the credit channel was effective, despite a slight increase in newly granted housing loans in the recent period, which, however, largely stemmed from the relaxation of supervisory recommendations regarding creditworthiness assessment conditions. Certain Council members expressed the opinion that a significant portion of household assets was very liquid, and thus could be used to finance consumption, and that overpayment of loans taken out earlier in response to the increase in interest rates reduced the strength of the impact of the credit channel. These Council members also pointed out that, following the earlier strong growth, interest rates on certain types of loans and deposits had declined somewhat. In addition, certain Council members argued that along with the expected economic recovery in 2023 Q2, lending should be expected to accelerate.

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 Council members upheld the assessment that 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 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 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 pointed out that further decisions of the Council would depend on incoming information regarding prospects for inflation and economic activity.

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