Minutes of the Monetary Policy Council decision-making meeting held on 6 June 2023

At the meeting, it was pointed out that the economic conditions in the environment of the Polish economy remained subdued. In the euro area, annual growth in activity continued to slow down in 2023 Q1. At the same time, in Germany GDP contracted and the level of economic activity was lower than before the outbreak of the pandemic. It was underlined that in the United States the economic conditions remained better than in Europe, although growth in activity was lower than the long-term average for the US economy in 2023 Q1. Some Council members also pointed out that the economic recovery in China after the country's departure from its previous zero-Covid policy had so far been limited.

It was pointed out that the effects of the commodity shock continued to have a negative impact on the global economic situation, while it was underlined that this shock was gradually subsiding. Nevertheless, its lagged effects were still having an adverse impact on the economies, particularly in the euro area and countries of the Central-Eastern Europe region. In particular, it was pointed out that the annual growth in prices remained high, which was causing a decline in real household income. As a result, retail sales were falling significantly in many economies. The Council members underlined that global monetary tightening, which was slowing down credit growth, was also having a negative impact on global economic activity.

Forecasts indicated that GDP growth in the euro area would be relatively low in 2023. At the same time, GDP growth in the United States was to remain moderate in 2023. It was emphasised that the global economic activity outlook remained uncertain, among others, due to tensions in the banking sector in the United States, with certain Council members pointing to somewhat easing of these tensions.

The Council members pointed out that global inflation was declining. Recently, inflation had fallen in both the euro area and the United States, as well as in the Central-Eastern Europe region. At the same time, it was underlined that in all these economies inflation remained high, and in the Central-Eastern Europe region it was still in double digits. At the same time, attention was drawn to a fall in core inflation in the environment of the Polish economy. In May, it declined for the second time in a row in the euro area. It was pointed out that core inflation had also begun to decline in the countries of the Central-Eastern Europe region, although in most of them it was still over 10%.

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The Council members emphasised that the decline in global inflation was supported by the fading away of the supply shocks, including in the commodities market and in global trade, as well as by the limited demand for goods by households. As a result, producer price growth is quickly declining around the world. Despite this, the fall in inflation in many economies is gradual, since the rapid growth in nominal wages, the relatively good economic situation in services, as well as the pass through of the earlier sharp increases in production costs on consumer prices and the relatively high corporate profits are supporting further price growth.

At the Council meeting, it was pointed out that recently the central banks in some advanced economies had raised interest rates. In turn, many central banks of the emerging economies, including in the Central-Eastern Europe region, are keeping interest rates unchanged.

Amid the weakening of economic growth around the world, activity growth had also slowed down in Poland. Annual GDP growth stood at -0.3% in 2023 Q1. It was underlined that the data on a slowdown of GDP growth was consistent with the March projection. The base effect due to the sharp growth in inventories in 2022 Q1 contributed to lower annual GDP growth. It was pointed out that the slowdown in economic activity supported disinflation. Moreover, the majority of Council members pointed out that the structure of GDP growth was favourable from the point of view of a fall in price growth. In particular, the decline in consumption was giving enterprises less leeway for price increases. At the same time, some Council members pointed out that investment growth was supporting the expansion of production capacity, which in the medium term should additionally support disinflation. At the same time, attention was drawn to the fact that monthly data for April 2023 showed a deeper fall in industrial output. Retail sales also decreased, falling again by over 7% y/y in April. As a result, some Council members judged that growth in economic activity in 2023 Q2 might be lower than earlier expected. Certain Council members underlined in this context that a fuller assessment of the economic outlook would be possible after getting acquainted with the results of the July inflation and GDP projection.

The Council members pointed out that despite a slowdown in economic activity growth, the labour market situation continued to be good and unemployment was low. However, the majority of Council members underlined that the monthly data confirmed a gradual slowdown in demand for labour. The employment growth in annual terms in the enterprise sector in recent months was decelerating, although the LFS data showed that the number of employed persons is high. It was underlined that according to the Social Insurance Institution (ZUS), in April 2023 the number of employment contracts had declined in annual terms for the first time in two years. At the same time, annual nominal wage growth in enterprises slowed down once again in April, which translated into a further fall in real wages. Certain Council members drew attention to the high growth in unit labour costs. In this context, these Council members also pointed to the further increase in the minimum wage in 2023, which would boost wage growth in the economy.

The Council members underlined that in line with earlier forecasts, inflation in Poland was decreasing. According to the Statistics Poland flash estimate, CPI inflation fell to 13.0% y/y in May 2023 and was the lowest for over a year. It was emphasised that in the last three months inflation had fallen by over 5 percentage points. At the same time, in May 2023 the overall level of consumer prices was unchanged as compared to April 2023. In this context, the majority of the Council members drew attention to the fact that the still high annual inflation rate was therefore not evidence of current growth in the overall level of prices, but was the result of the history of price changes in previous months. It was pointed out that while in previous months the fall in the annual inflation rate had been almost exclusively due to a decline in the annual growth in food and energy prices, it could be estimated that in May 2023 core inflation had also fallen. It was underlined that growth in both prices of services and non-food products had most likely declined. Certain Council members expressed the opinion that price-setting processes in Poland, like in other countries, were currently following a different pattern than in a low inflation period. In the opinion of these Council members, the decline in the annual CPI index mainly reflected the base effects and the fall in commodity prices, and the impact of the previous NBP interest rate hikes was not sufficient.

The Council members judged that in line with the available forecasts, price growth, including core inflation, would proceed to fall. It was pointed out that price growth would adjust to the weakened economic conditions, and at the same time the fading away of the global supply shocks and cost pressure would have a disinflationary effect. It was emphasised that the sharp slowdown in producer price inflation, which stood at 6.8% y/y in April, while in the summer of 2022 was over 25%, indicated a weakening of cost pressure. The majority of the Council members underlined that NBP's strong monetary policy tightening, which had contributed to a decline in credit debt in the Polish economy and in the M1 monetary aggregate, had also contributed to the decrease in inflation. The majority of the Council members therefore pointed out that the high level of NBP interest rates was still having anti-inflationary effects. Moreover, these Council members also drew attention to the continuation of the fall in the measures of inflation expectations, including of consumers and enterprises. It was also judged that the disinflation process was supported by the marked appreciation of the zloty observed in recent months. Some Council members pointed out that a squeeze on corporate margins, which had been relatively high in some sectors in previous quarters, would also be conducive to a fall in inflation. At the same time, certain Council members were of the opinion that the decrease in inflation in the coming quarters might be faster than current forecasts indicated.

However, certain Council members judged that a significant portion of enterprises and consumers still expected relatively high inflation and that the median of price growth forecasts made by market analysts had remained stable in the recent period. At the same time, they judged that the pace of decline in inflation might be slower than the path outlined in the March projection.

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 still contribute to lower price growth in Poland. The decline in domestic inflation would be supported by the weakening of domestic 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 credit 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.

Publication date: 7 July 2023