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

At the meeting, it was pointed out that the economic conditions in the environment of the Polish economy remained weakened and that uncertainty about the activity outlook persisted. In the euro area, annual GDP growth in 2023 Q2 slowed well below its long-term average, while in Germany GDP contracted in annual terms. The Council underscored that data incoming in 2023 Q3 signalled a further deterioration in economic conditions in the euro area, including in Germany. Furthermore, it was observed that the recovery of activity in China following the departure from the so-called "zero-Covid" policy was unfolding much more slowly than expected. In turn, the current economic conditions in the United States remained better than in the euro area.

Council members pointed out that the weak global economic conditions, along with the receding supply shocks, was having a disinflationary effect. According to the Eurostat flash estimate, inflation in the euro area stood at 5.3% in August. In the United States, inflation in July was markedly lower than in the euro area, although it continued to run above the inflation target. There has been a marked decline in inflation in the countries of Central and Eastern Europe. It was observed that core inflation was also declining across the world, although at a slower pace, amid declining growth in goods prices, and still elevated services prices growth. Strong disinflationary trends are reflected in producer price indices, including in the economies important for global industry. It was emphasised that producer prices had fallen by about 6% y/y in Germany in July, while in China the annual PPI growth had been negative for ten months.

Certain Council members observed that some major central banks, including the ECB and the Fed, were signalling that they would keep interest rates elevated for a longer period, because the upward pressure on prices in these economies remained heightened. By contrast, some Council members observed that these banks had started increasing their interest rate later than many other central banks.

Amid the weakened global economic conditions, activity growth has also declined in Poland. According to the Statistics Poland preliminary estimate, the annual GDP growth in 2023 Q2 stood at -0.6%. Council members pointed out that this reading was markedly lower than forecast in the July projection. It was emphasised that consumer demand continued to decline, which was conducive to disinflation. At the same time, investment continued to rise. Certain Council members were of the opinion that the heavy inflow of

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refugees to Poland directly upon the onset of the Russian military aggression against Ukraine had boosted consumption in Poland in 2022, which, due to the statistical base effect, was currently hampering annual growth in this category. At the same time, an opinion was voiced that the present slowdown in the Polish economy was to a great extent structural in nature, related to energy transformation and the consequences of the COVID-19 pandemic.

Incoming data indicate that in 2023 Q3 the economic conditions remained weak. Retail sales and industrial output in July 2023 declined in annual terms. Similarly, the PMI in industry signals weak economic conditions. In this context, Council members indicated that annual GDP growth in 2023 Q3 would be also probably lower than the predictions of the July projection. At the same time, it was judged that economic activity growth in Poland would gradually pick up in the following quarters, which should be supported by the fading of the previous supply shocks and the declining inflation.

At the meeting it was pointed out that the situation in the labour market remained good, and that unemployment continued to be low. While the number of the working persons remained high, annual employment growth in the enterprise sector was slowing down, and nominal wage growth was gradually declining.

The majority of Council members pointed out that the effects of the previous NBP monetary policy tightening were still being seen in the credit market. In July 2023, annual growth in credit in the economy, as well as cash in circulation and the M1 aggregate were negative. At the same time, the credit-to-GDP ratio remained at the lowest level in more than a decade. In this context, certain Council members pointed to what they thought was a considerable amount of newly extended loans and the recently rising number of applications for housing loans, which was fuelled by the launch of the so-called "Safe Credit" programme. Yet most of the Council members were of the opinion that the expected scale of the impact of this programme on macroeconomic developments would be limited.

The Council members pointed out that the annual CPI inflation in August 2023 had decreased markedly once again and – according to Statistics Poland flash estimate – stood at 10.1%. It was emphasized that in half a year annual CPI inflation had fallen by more than 8 percentage points. It was also remarked that in recent months the overall price level had decreased. The fall in inflation in annual terms in August was mainly due to the fall in the annual growth of prices of food and non-alcoholic beverages. It was pointed out that on the basis of available data it could be estimated that in August core inflation had also declined again. Certain Council members indicated that core inflation remained high despite slower growth in economic activity.

During the discussion it was pointed out that in July industrial producer prices had fallen in annual terms, while annual PPI growth had declined by over 27 percentage points since June 2022. At the same time, it was pointed out that enterprises were reporting growing difficulties in raising prices and that they were revising downwards their expectations regarding CPI inflation within a one-year horizon. It was indicated that production capacity utilization had also been falling. All consumer inflation expectations measures were also decreasing. The majority of the Council members judged that the marked decline in inflation and the lowering of inflation expectations were contributing to an increase in the restrictiveness of monetary policy. It was emphasized that this had been mirrored in the growth of real interest rates. In this context, it was pointed out that the NBP reference rate was higher than inflation expectations of market analysts within a one-year horizon, which had significantly dropped recently. Certain Council members indicated, however, that the NBP reference rate remained lower than the quantified consumer inflation expectations within a one-year horizon.

While discussing the outlook for inflation in Poland, the majority of the Council members indicated that the disinflation process was firming and that inflation would continue to decline. On the basis of incoming information and forecasts it was judged that annual growth of prices in September 2023 would fall again to stand below 10%. It was judged that in the coming quarters inflation would continue to decrease. It was indicated that taking into consideration information on lower demand pressure in the economy and regulatory factors, future price growth would probably stand below the predictions from the July projection. Certain Council members emphasized that predictions for inflation developments were contingent on the future scale and scope of support measures introduced in relation to the previous rise in global commodity prices.

The majority of the Council members judged that the weaker domestic economic conditions – in particular, weaker demand pressure than previously expected – coupled with low growth of monetary and credit aggregates, a decrease in inflation expectations and cost pressure, as well as a drop in inflation pressure abroad and weak economic conditions in the environment of the Polish economy, would contribute to a faster return of inflation in Poland to the NBP inflation target. Considering these circumstances – and taking into account the time lags in the monetary policy transmission to the economy – the

Council adjusted the NBP interest rates. In the opinion of the majority of Council members, following this adjustment, the level of interest rates will continue to support the return of inflation to the NBP inflation target in the medium term. 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.

Certain Council members expressed the opinion that considering the uncertainty over the pace of a further decline in inflation, and given the prospects of economic recovery, the hitherto level of interest rates was optimal, yet they pointed out that in the future a reduction of interest rates might be justified.

The view was expressed that given the persistently high annual price growth and elevated inflationary expectations, the level of the NBP interest rates was too low 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.

The Council decided to lower the NBP reference rate by 0.75 percentage points, i.e. to 6.00%. At the same time the Council set the remaining NBP interest rates at the following levels: the lombard rate at 6.50%; the deposit rate at 5.50%; the rediscount rate at 6.05%; the discount rate at 6.10%.

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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