Minutes of the Monetary Policy Council decision-making meeting held on 4 October 2023

At the meeting, it was noted that the economic conditions in the external environment of the Polish economy remained weakened, and that uncertainty about the activity outlook persisted. Incoming data pointed to a likely further slowdown of GDP growth in the euro area in 2023 Q3, including a steeper decline in activity in Germany. As a consequence, growth forecasts for the euro area had also deteriorated, signalling that the recovery in 2024 would be weaker than previously expected. It was observed that one of the risk factors to growth in the environment of the Polish economy was the effect on the euro area economy of the monetary policy tightening by the European Central Bank. At the same time, it was emphasised that economic conditions in the United States remained favourable.

The Council members observed that the disinflation process was advancing across the world. It was pointed out that according to the Eurostat flash estimate, inflation in the euro area had fallen to 4.3% in September, on the back of a substantial decline in core inflation. In Central and Eastern Europe, price growth was also decreasing, although it remained higher than in the euro area. In the United States, core inflation was gradually declining. The Council members drew attention to the fact that producer price growth in some major economies was negative, which evidenced weak cost pressures. It was underscored that the European Central Bank and the United States Federal Reserve were expecting further disinflation, but they assumed inflation return to the inflation targets not earlier then in the second half of 2025. Certain Council members pointed out that those banks signalled keeping interest rates at an elevated level for a longer period.

Amid the weakened global economic conditions, activity growth in Poland had also remained subdued. The Council members noted that retail sales and industrial output had declined in annual terms in August 2023, although the fall was somewhat smaller than in the previous month. It was also observed that the PMI indicator remained low, which pointed to a further decline in industrial activity. At the same time, construction and assembly output growth had increased.

Taking into account incoming monthly data, the Council members argued that the annual GDP growth in 2023 Q3 was likely to have risen somewhat, while still remaining low. There had probably been another decline in consumption in annual terms, as well

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as in exports and imports. Activity growth in Q3 had also probably been lower than forecast in the July projection and markedly lower than the potential growth rate. As a result, incoming data pointed to a deepening of a negative output gap and to the continuation of weak demand pressure in the Polish economy.

It was judged that although activity growth remained low, it was set to rise in the following quarters. In this context, certain Council members were of the opinion that retail sales data might be a sign of a recovery in consumption.

During the meeting, it was pointed out that despite the slowdown in economic activity growth, good labour market conditions continued, including low unemployment. Although the number of working persons remained high, in August 2023 annual employment growth in the enterprise sector had slowed down to zero, and the number of full-time equivalents had declined in month-on-month terms. As a result, the sector's total employment was lower than at the beginning of 2023. It was also highlighted that firms' assessments of future employment levels, covered by the PMI indicator, were deteriorating, and that households' concerns about unemployment rose. Certain Council members underlined that – in their opinion – wage growth in some sections was high.

According to the majority of the Council members, the effects of the previous NBP monetary policy tightening were still observed in the credit market. In August, both the annual and monthly rate of change in bank loans to the economy had remained negative, and in particular there was a fall in the value of housing loans. As a result, the ratio of credit-to-GDP remained at its lowest levels in more than a decade, which – in the opinion of most Council members – was a sign that bank lending was currently not an inflationary factor.

At the meeting it was pointed out that the annual CPI index had again fallen markedly in September 2023, running at 8.2% according to the Statistics Poland flash estimate. The Council members noted that this reading had turned out to be below market expectations. It was emphasised that the annual inflation had declined by more than 10 percentage points within the past seven months, and that during the past five months the general price level even decreased somewhat. In September, there had been a decline in price growth across all the main categories of the inflation basket.

The Council members observed that based on the available data – apart from slower growth in food and energy prices – also core inflation could be estimated to have fallen again in September 2023, and that the fall had been significant. Attention was also drawn to the fact that the annual change of PPI index had been negative again in August. Thus, it was assessed that the decline in inflation resulted from both lower demand pressure and lower cost pressure. The Council members emphasised that the fall in inflation was accompanied by a drop in inflation expectations, and according to survey data, companies had again lowered the declared pace of further increases in the prices of their products. 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.

While discussing the outlook for inflation in Poland, the majority of the Council members pointed out that inflation would continue to decline. Based on incoming data and forecasts, it was assessed that core inflation in the coming quarters might be lower than indicated in the July projection. It was also emphasised that inflation forecasts were subject to considerable uncertainty related, among others, to developments in the prices of energy commodities, including oil, as well as the level of VAT rates on food and the level of administered prices, including energy prices. In this context, it was pointed out that any potential rise in oil prices or taxes, on the one hand, would have a boosting effect on inflation and, on the other hand, would have a negative effect on real income and economic growth. Certain Council members were of the opinion that the pace of the recovery could pose a risk to the future disinflation process.

The majority of the Council members judged that incoming data confirm weak demand and cost pressure in the economy as well as reduced inflation pressure amongst the weakened external economic conditions. 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, which is consistent with meeting 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 prospects of expected economic recovery and the pace of a further decline in

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inflation, it would be appropriate to keep the NBP interest rates unchanged on the current meeting.

The view was expressed that given the persistently high annual price growth and elevated inflation 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 0.25 percentage points, i.e. to 5.75%. At the same time, the Council set the remaining NBP interest rates at the following levels: the lombard rate at 6.25%, the deposit rate at 5.25%, the rediscount rate at 5.80%, and the discount rate at 5.85%.

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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