Minutes of the Monetary Policy Council decision-making meeting held on 8 November 2023

At the meeting, it was noted that the economic conditions in Poland's largest trading partners remained weakened. At the same time, uncertainty about the activity outlook persisted in the external environment of the Polish economy. In 2023 Q3, annual GDP growth in the euro area had slowed down to 0.1%, and in Germany economic activity had declined. Available forecasts suggest that growth in the euro area would recover in 2024, albeit gradually. At the same time, the recovery would be fraught with uncertainty, among others, due to the effects of monetary policy tightening by the European Central Bank and also due to structural problems in some of the large euro area economies. In turn, in the United States the economic conditions remained favourable, and in 2023 Q3 activity growth had increased. However, it was pointed out that some of the recently published data, including data on the labour market, signalled the risk of a slowdown in this economy.

The Council members observed that the disinflation process was advancing across the world. According to the Eurostat flash estimate, inflation had fallen to 2.9% in the euro area in October. Core inflation had also declined, although it remained higher. In Central and Eastern Europe price growth had also fallen. It was pointed out that according to the forecasts of the major central banks, further disinflation would, however, proceed more slowly. As a result, the inflation target in the euro area should be met in the second half of 2025, and in the United States as late as 2026.

It was underlined that the central banks in the euro area and in the United States had kept interest rates unchanged at their recent policy meetings. Certain Council members observed that both the European Central Bank and the Federal Reserve of the United States were signalling that their monetary policy would remain restrictive for an extended period.

At the meeting it was noted that the heightened geopolitical tensions in the Middle East were a risk factor for the global economy. These tensions were pushing up prices of some commodities, although the scale of the impact had, so far, been limited.

Amid the weakened global economic conditions, also in Poland activity growth remained low, although some data signal its gradual recovery. The Council members pointed out that in September 2023 retail sales had declined in annual terms, but the scale of the fall

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had been smaller than in previous months. Industrial output had also declined in annual terms; however, in monthly terms and after seasonal adjustment it had risen. In turn, the growth in construction and assembly output had been the highest in more than a year. Moreover, a gradual improvement in consumer sentiment was highlighted. Taking into account monthly data, the Council members judged that GDP growth in 2023 Q3 had most likely been positive, although it had remained low.

While analysing the labour market situation, the Council members noted that it remained good. Nevertheless, in September 2023 annual employment growth in the enterprise sector once again stood at zero. On the other hand, amid a marked fall in inflation, growth in real wages in this sector was positive. At the same time, nominal wage growth was gradually slowing down. Also survey results indicated that wage pressure was weakening somewhat. However, certain Council members drew attention to the fact that the percentage of firms planning wage increases remained above the long-term average.

According to the majority of the Council members, the effects of the previous NBP monetary policy tightening were still observed in the credit market. The annual growth in lending to households continued to be negative, in particular, due to the decline in total volume of mortgage loans, despite some revival observed in this market segment. Whereas, consumer credit was rising, albeit at a relatively slow pace.

While discussing the outlook for economic activity, the Council members pointed out that although in 2023 activity growth was low, in line with the NBP November projection the coming quarters would see GDP growth accelerate. It was also indicated that in 2023 GDP growth was to be lower than expected in July, while in the next two years it was to be somewhat faster. Yet, it was emphasised that output gap was expected to remain negative in the projection horizon, which would support the decline in inflation.

At the meeting, it was pointed out that the annual CPI index had again fallen markedly in October 2023, running at 6.5% according to the Statistics Poland flash estimate. It was stressed that price growth had fallen in all the main components of the inflation basket, probably including also core inflation. It was assessed that this was the effect of the weakening of both demand and cost pressure, whose decline was reflected, in particular, in the negative annual PPI growth.

While discussing the outlook for inflation in Poland, the majority of the Council members pointed out that in line with the November projection, inflation would decline in the coming quarters, albeit, as previously anticipated, the decline would be slower than to date. It was emphasised that the projection assumed that inflation would return to the NBP inflation target, i.e. 2.5% ±1 percentage point, in 2025 Q4. Thus, it was assessed that the horizon of inflation returning to the target had not materially changed compared to the July projection, which resulted from the fact that lower NBP interest rates were offset with weaker demand pressure and lower inflation at the starting point of the projection. It was also indicated that the slightly higher inflation in 2025 assumed in the November projection compared to the July projection was the effect of higher food and energy prices amid unchanged average annual core inflation. Certain Council members pointed out that core inflation was to remain above the upper limit for deviations from the NBP inflation target until the end of the projection horizon.

The Council members pointed out that inflation developments, both in the short- and medium-term, were fraught with uncertainty, including the uncertainty related to the future course of fiscal and regulatory policies. Special attention was drawn to the uncertainty about future VAT rates on food products and the uncertainty related to energy price regulations as well as other elements of fiscal policy in the coming years.

The majority of the Council members assessed that the current interest rate level was supporting the decline in inflation. Those members argued that further decline in inflation, which contributes to lowering inflation expectations, increases real interest rates. On the other hand, certain Council members pointed to a slight rise in inflation expectations of enterprises in the recent period and a slight deterioration in the structure of responses in the survey of consumer inflation expectations.

The majority of the Council members assessed that incoming data indicated low demand and cost pressures in the Polish economy, which amidst weakened economic conditions and falling inflation pressure abroad would support a gradual decline in domestic inflation. Considering the adjustment in the NBP interest rates introduced in recent months, together with uncertainty about a future course of fiscal and regulatory policies and their impact on inflation, the Council decided to keep the NBP interest rates unchanged. The Council judged that the current level of the NBP interest rates was conducive to meeting the NBP inflation target in the medium term. It was emphasised 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

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exchange rate, which, in the Council's assessment, would be consistent with the fundamentals of the Polish economy.

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 keep the NBP interest rates unchanged: the reference rate at 5.75%; the lombard rate at 6.25%; the deposit rate at 5.25%; the rediscount rate at 5.80%; the discount rate at 5.85%.

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

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