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

At the meeting, it was noted that the economic conditions in the external environment of the Polish economy remained weakened, although it varied across countries. It was pointed out that the economic situation in the United States was still favourable, yet – after the rapid GDP growth in 2023 Q3 – activity growth might have slowed down. On the other hand, stagnation tendencies continued in the euro area. Annual GDP growth in Germany, Poland's main trading partner, was negative in 2023 Q3. Forecasts suggest that in 2024 GDP in Germany will return to the upward trend; however, uncertainty persists as to the materialisation of this scenario. The uncertainty is related to the structural problems of the German economy, the previous monetary policy tightening by the ECB and the likely fiscal tightening.

The Council members underlined that annual price growth in the external environment of the Polish economy was declining further, although in many countries it remained elevated. In the euro area, inflation – including core inflation – declined by more than expected. Price growth in the countries of the Central and Eastern Europe region was also slowing down, yet it remained higher than in advanced economies.

It was observed that amid the falling inflation, most central banks in advanced economies had recently kept interest rates unchanged after prior increases. It was pointed out that market expectations indicated a possibility of interest rate cuts in the major economies in 2024, although it was also stressed that those expectations were subject to uncertainty.

At the meeting it was observed that amid the weakened global economic conditions, also in Poland activity growth remained low, although it rose recently. According to the Statistics Poland preliminary estimate, GDP growth in Poland stood at 0.5% y/y in 2023 Q3 compared to -0.6% y/y in the previous quarter. GDP growth was positively affected by the contribution of net exports, and, albeit to a lesser extent, an increase in investment and consumption. Some Council members emphasised that consumption growth had been higher than expected. At the same time, the Council members stated that the contribution of changes in inventories to GDP growth was markedly negative in 2023 Q3.

While discussing the outlook for the economic activity, it was pointed out that GDP growth would probably be accelerating in the coming quarters. This would be driven by an increase in consumption on the back of real wage growth. The majority of the Council

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members emphasised that despite the expected higher GDP growth, the output gap in the following quarters would, according the NBP's November projection, remain negative. Certain Council members observed that also the rise in the nominal value of household assets observed in recent years might have an upward effect on consumption.

During the discussion it was stated that the latest monthly data were consistent with the scenario of accelerating economic growth as outlined in the November NBP's projection. In October, retail sales as well as industrial output and construction and assembly production were higher than the year before. At the same time, it was underlined that consumer confidence was improving. The PMI Manufacturing index had also risen, although it continued to indicate an ongoing downturn in industry.

While analysing the labour market situation, the Council members noted that it remained good, as reflected in particular in the low unemployment rate. Although the number of working persons remained high, employment in the enterprise sector was lower than at the beginning of the year. Certain Council members pointed out that despite the increase in the number of foreign workers in the Polish labour market, demographic changes might be one of the factors hampering employment growth.

Alongside that, as inflation decreased, the annual real wage growth in the national economy increased in 2023 Q3, and, like in Q2 of that year, was positive. The majority of the Council members judged that despite the observed increase in real wages, the overall cost pressure among enterprises was easing. In contrast, certain Council members drew attention to the fact that real wages were rising faster than labour productivity, and – according to surveys – the measures of wage pressure, despite falling, 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 ratio of bank credit to the non-financial private sector to GDP was approximately 15 percentage points lower than before the pandemic. Annual growth in credit to both households and corporates remained negative. However, the Council members pointed out that increasingly visible signs of recovery could be observed in the credit market. It was indicated that banks were granting more and more housing loans, which was supported in particular by the so-called "2% Safe Mortgage" programme.

At the meeting, it was pointed out that – according to the data available at that time, i.e. the Statistics Poland flash estimate – the annual inflation rate was running at 6.5% in

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November. The Council members pointed out that, as previously expected, the disinflation process was slower than in previous months, although given the available Statistics Poland data, the decrease in core inflation in November could be estimated as greater than in October. The majority of the Council members argued that price growth was curbed by the weakened demand pressures and the decline in cost pressures. The diminishing cost pressures and the fading of most external supply shocks were also indicated by the increasingly sharper declines in the PPI index. At the same time, the Council members judged that the decrease in inflation was being supported by the appreciation of the zloty exchange rate, which was consistent with the fundamentals of the Polish economy.

Some Council members observed that in recent months, the indicators of inflation expectations had decreased. Yet certain Council members drew attention to the slight deterioration in the structure of the responses in the surveys of inflation expectations.

While discussing the outlook for inflation in Poland, the majority of the Council members pointed out that a further decline in price growth was expected. It was also emphasised that inflation developments, both in the short- and medium-term, were associated with uncertainty, related in particular to the pace of economic recovery in Poland and its impact on price developments as well as future course of fiscal and regulatory policies. In particular, it was pointed out that despite the incoming announcements concerning the shape of fiscal policy, uncertainty persisted as to future VAT rates on food products, energy price regulations as well as other elements of fiscal policy. It was underlined that fiscal and regulatory measures might affect future inflation developments, both directly and through their impact on the economic conditions and demand in the economy.

The majority of the Council members assessed that the incoming data indicated low demand and cost pressures in the Polish economy, which amidst the 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 previous 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 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%, and 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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