Minutes of the Monetary Policy Council decision-making meeting held on 7 February 2024

At the meeting, it was noted that the euro area was stagnant in 2023 Q4 and GDP in Germany had fallen. In contrast, economic conditions in the United States remained favourable and the labour market situation was even better than expected. At the same time, it was observed that the disinflation process was proceeding in the environment of the Polish economy. In particular, core inflation in the largest advanced economies continued to gradually decline and recently a significant fall in the global prices of most energy commodities had also been recorded.

At the meeting, it was pointed out that – according to the Statistics Poland preliminary estimate – GDP growth in Poland stood at 0.2% in 2023. The Council members indicated that this implied a certain acceleration in GDP growth in 2023 Q4, which was in line with the NBP November projection and was evidence of a gradual economic recovery. At the same time, it was observed that monthly data for December showed a year-on-year decline in retail sales, a fall – although smaller than market expectations – in industrial output, and a strong rise in construction and assembly output. In turn, certain Council members underlined that the situation in many industrial sections had been improving steadily for several months.

Some Council members judged that the available data confirmed that despite the recovery, GDP growth was still relatively subdued and significantly lower than the potential of the Polish economy. In the opinion of these Council members, going forward the economic recovery could be expected to continue – above all, due to the anticipated higher growth in consumption – although its scale was subject to uncertainty. It was pointed out that consumption growth would be boosted by the pick-up in growth of real household income, amid lower inflation, which would be accompanied by an increase in the minimum wage, indexation of social benefits and wage increases in the public sector. Yet, some Council members judged that households' efforts to rebuild savings could weigh visibly on the outlook for consumer demand.

When referring to the labour market conditions, it was indicated that they were still good as reflected, in particular, in the low unemployment rate. The scale of the fall in employment in the enterprise sector was also slightly smaller in year-on-year terms. Alongside that, certain Council members underlined that the number of people working

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under other forms of employment relationship than an employment contract was rising. At the same time, it was pointed out that in December 2023 annual nominal wage growth in the enterprise sector had fallen below 10%, although it was argued that – taking into account the minimum wage increases and the wage rises for public sector employees – wage growth could rise significantly in 2024 Q1. Moreover, certain Council members observed that at the end of 2023 real wage growth was higher than in previous quarters, and was not accompanied by a marked improvement in labour productivity.

According to the majority of the Council members, the effects of NBP earlier monetary policy tightening could still be seen in the credit market. In the opinion of these Council members, this is particularly evidenced by the fact that the ratio of credit of the private non-financial sector to GDP was much lower than before the pandemic. At the same time, a recovery in the credit market was noted, which was attributable to the so-called "Safe Mortgage" programme. Certain Council members also indicated a rise in the stock of both consumer and corporate loans.

At the meeting, it was observed that the annual inflation rate in December 2023 had declined to 6.2%, which meant that it was almost three times lower than its peak in February 2023. The Council members underlined that the fall in the CPI index was not only the result of lower commodity prices or statistical base effects, since the monthly growth of the majority of price categories had declined to their long-term averages. Additionally, it was noted that in December core inflation had fallen yet again, driven by weakened demand pressure and the earlier monetary policy tightening, although it remained elevated. Some Council members drew attention to the fact that in December the fall in industrial producer prices had also deepened, which evidenced the fading of the earlier external supply shocks and weak cost pressure. It was judged that the decline in inflation was being supported by the appreciation of the zloty exchange rate, which was consistent with the fundamentals of the Polish economy.

When discussing the short-term inflation outlook in Poland, it was pointed out that a further fall in price growth was expected at the beginning of 2024. As at the January meeting, the Council members observed that in 2024 Q1 inflation would most likely be lower than predicted in the NBP November projection. It was judged that according to current forecasts, the CPI index might fall below 3% in March 2024, i.e. to a level consistent with the NBP inflation target of 2.5% +/-1 percentage point. At the same time, the Council members underlined that core inflation would also ease, although at a slower pace, and consequently it would remain higher than headline inflation. In this context, the Council members expressed the opinion that developments in core inflation were of significant importance for the assessment of domestic inflation processes. Certain Council members emphasised that a further marked fall in inflation at the beginning of 2024 – with unchanged interest rates – would be a factor pushing up real interest rates.

When discussing the longer-term inflation outlook, the Council members upheld the assessment that price dynamics in the coming quarters would depend on regulatory and fiscal decisions and were subject to high uncertainty. It was pointed out that, according to the current regulations, the zero VAT rate on food products was supposed to be in place until the end of March 2024, while the prices of gas, electricity and district heating for households were to remain frozen until the end of June 2024. It was observed that assuming no increase in the VAT rate on food and unchanged energy prices until the end of the year, inflation might remain at a level consistent with the NBP inflation target from February until the end of 2024. However, should the VAT rate on food products be restored from zero to 5% and should subsidies to energy prices be totally or partially removed, inflation might rise significantly in the second half of 2024. Moreover, some Council members drew attention to the fact that risks around the inflation path included developments in commodity prices and the return of tensions in international trade due to the situation in the Red Sea, which had caused a sharp increase in freight prices in recent months.

Also, when discussing the longer-term outlook for core inflation, the Council members underlined that uncertainty persisted about its further path, which was related to, in particular, the pace of economic recovery in Poland and its impact on inflationary pressure. Some Council members judged that the significant rise in public sector wages would be a factor that could boost core inflation. This was because it would push up wage growth in the whole economy as well as consumer demand. The implementation of other fiscal measures, such as an increase in the tax-free allowance, could have a similar effect, although some Council members emphasised that currently it was not clear whether and to what degree these proposals would be implemented. In this context, certain Council members pointed out that – particularly in view of the need for increased public expenditure on the military and on energy transformation – the room for increasing the expansiveness of fiscal policy was limited and rather consolidation policies should be expected.

The majority of the Council members assessed that despite the observed economic recovery, demand and cost pressures in the Polish economy remained low, which amidst the weakened economic conditions and fading inflationary pressure abroad would support lower price growth in Poland. In 2024 Q1, the annual CPI growth is likely to fall significantly, while the decline in core inflation will be slower. However, inflation developments in subsequent quarters are subject to high uncertainty, related in particular to the impact of fiscal and regulatory policies on price developments, as well as the pace of economic recovery in Poland. It was emphasised that should higher VAT rate on food products be restored and energy prices raised, inflation might rise significantly in the second half of 2024. At the same time, higher nominal wage growth, including due to increases in public sector wages, would contribute to higher demand pressure in the economy. Under these circumstances, 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.

Certain Council members expressed the opinion that given the persistently high annual price growth and elevated inflation expectations, as well as amid the expected further recovery in demand and the fiscal measures launched, 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 prospects for inflation and economic activity.

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