



Minutes of the Monetary Policy Council decision-making meeting held on 9 January 2024

At the meeting, it was noted that the global economic conditions remained weakened, although they varied across the major economies. It was emphasized that stagnation tendencies continued in the euro area. The subsequent quarters were expected to see a certain recovery in this economy, yet it was likely to be slow. By contrast, the economic situation in the United States remained favourable. It was also pointed out that the pace of economic recovery in China was limited. It was indicated that uncertainty regarding the outlook for global economic activity – including uncertainty related to the geopolitical situation – persisted.

It was underlined that disinflationary processes continued in the external environment of the Polish economy, although in many countries inflation remained elevated. It was also pointed out that in December 2023 the annual growth in the prices of consumer goods in the euro area rose, yet it resulted mainly from the statistical base effects of energy prices. At the same time, core inflation in the euro area continued to decline. It was pointed out that inflation was also declining in many Central and Eastern European economies.

The Council members indicated that most central banks in advanced economies had been keeping interest rates unchanged. In turn, in the region of Central and Eastern Europe, central banks of the Czech Republic and Hungary had recently cut interest rates.

At the meeting it was observed that the Polish economy was on a gradual recovery path. After a rise in October 2023, the annual growth of retail sales and industrial output fell below zero in November 2023, yet remained above the average recorded in previous months. At the same time, construction and assembly production continued to grow. It was also emphasized that in 2023 Q4 consumer and business sentiment indicators had been better than in previous quarters. Consequently, the Council members judged that in 2023 Q4 the annual GDP growth had probably picked up, although remained relatively low. Certain Council members drew attention to the uncertainty regarding the impact of migration flows between Poland and Ukraine on consumption growth.

While analysing the labour market situation, the Council members noted that it remained good, as reflected, in particular, in the low unemployment rate. It was pointed out that in recent months the annual nominal wage growth in the enterprise sector remained elevated. Alongside that, it was observed that increase in the minimum wage, as well as



salary increases for public sector employees in 2024 would contribute to a higher wage growth in the economy. It was also noted that although the number of working persons remained high, the annual employment growth in the enterprise sector in November 2023 was again slightly negative. At the same time, the number of job vacancies in the economy at the end of 2023 Q3 was markedly smaller than a year before.

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 15 percentage points lower than before the pandemic. Some members of the Council pointed out that the annual growth in household and corporate loans remained negative. Yet, it was emphasized that from month to month banks granted more and more loans to households, including especially mortgages. This was significantly supported by the so-called “2% Safe Mortgage” programme. The Council Members noted that although the statutory limit of subsidies under this programme had been exhausted, new solutions had been announced, which – if put in place – might continue to contribute to a rise in housing loans. Certain Council members also paid attention to the fact that the annual growth in housing loans denominated in PLN, as well as consumer loans, was positive.

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 declined to 6.1% in December 2023. It was noted that these data were lower than the market expectations. It was emphasised that the annual price growth in December was almost three times lower than the peak seen in February 2023. It was observed that when taking into account the Statistics Poland data, it might be estimated that in December core inflation fell for the ninth consecutive month. Certain Council members underlined that core inflation remained elevated, although its decline in the past quarters was faster than previously forecasted.

The majority of the Council members assessed that the decline in inflation was driven not only by the reduced cost pressure or statistical effects but also by the low demand pressure. Those members pointed out that at present it was relatively difficult for enterprises to raise prices, especially as consumers’ inflation expectations had fallen sharply in recent quarters. On the other hand, certain Council members expressed the opinion that entrepreneurs’ expectations regarding price increases – as well as inflation forecasts formulated by financial sector analysts for 2025 – continued to be elevated. Certain Council members judged that amid the fading of external shocks boosting price growth, domestic factors started to play a more important role in inflation developments



in Poland. 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.

While discussing the short-term outlook for inflation in Poland, it was pointed out that a further decline in price growth was expected in the coming months. It was also emphasised that in 2024 Q1 inflation would probably be lower than predicted in the NBP's November projection. It was judged, that according to the current forecasts, the annual price growth might decline below 3% in March 2024, i.e. to the level consistent with the NBP inflation target of 2.5% +/-1 percentage point.

While discussing the longer-term outlook for inflation, the Council members underlined that inflation developments in the subsequent quarters were subject to high uncertainty. In this context, it was pointed out that in accordance with the draft Budget Act, zero VAT rate on food products was supposed to be in place until the end of March 2024. Alongside that, according to the current legal status, prices of gas, electricity and district heating for households were to remain frozen until the end of June 2024. It was emphasized 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, it was noted, that uncertainty about the pace of economic recovery in Poland and its impact on inflationary pressures persisted. It was also pointed out that in particular higher wages in the public sector together with rising childcare benefits as well as old-age and disability pensions would increase household income, thus contributing to higher consumption, and, consequently, higher price growth. Some Council members also drew attention to the uncertainty about external factors affecting inflation, including those related to the future global economic conditions and commodity prices developments.

The Council members expressed an opinion that given the above mentioned factors which were likely to affect CPI inflation in 2024, core inflation developments were of significant importance for the assessment of domestic inflation processes.

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 falling inflation pressure abroad would support lower price growth in Poland. In the first months of 2024, 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 associated with 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 emphasized 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, increases in salaries for public sector employees and social benefits would contribute to higher inflation. 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 the prospects for inflation and economic activity.

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