Minutes of the Monetary Policy Council decision-making meeting held on 6 March 2024

During the discussion at the meeting of the Monetary Policy Council it was noted that economic conditions in the euro area remained weakened, although some of the indicators signalled that the coming quarters might see a slow recovery in activity. At the same time, incoming data suggested that GDP in Germany might decline again in 2024 Q1 and was forecast to grow only slightly over 2024. It was judged that the weakened economic conditions in Germany, Poland's main trading partner, would continue to have an adverse impact on Polish exports growth.

When discussing inflation developments abroad, the Council members noted that following the earlier sharp fall, annual price growth in the United States and the euro area was running above the inflation targets of the central banks of these economies. At the same time, core inflation in these economies remained higher than headline inflation, although it was also slowly declining. It was pointed out that the fall in core inflation in the environment of the Polish economy was being slowed down by the persistence of elevated growth in service prices in view of the relatively robust growth in nominal wages. Under these circumstances, the central banks of the advanced economies were keeping interest rates unchanged.

When discussing economic activity in Poland, the Council members judged that an economic recovery was under way, although GDP growth remained relatively low. According to the Statistics Poland preliminary estimate, annual GDP growth increased to 1% in 2023 Q4. GDP growth was positively affected by the contribution of net exports and investment. At the same time, consumption growth declined. Incoming data on the economic conditions at the beginning of 2024 indicate that in January both retail sales and industrial output grew. In the opinion of the Council members, these data signal a pickup in activity growth, including a recovery in consumption. At the same time, it was pointed out that annual construction and assembly production growth was negative in January 2024.

When referring to the labour market conditions, it was noted that – in line with predictions – in January 2024 wage growth in the enterprise sector had picked up, largely a result of the increase in the minimum wage. It was underlined that the significant fall in inflation and higher nominal wage growth had translated into a marked real wage growth. On the

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other hand, annual employment growth in this sector was still negative. At the same time, the registered unemployment rate remained close to the historical lows.

According to the majority of the Council members, the effects of NBP earlier monetary policy tightening could still be seen in the credit market. At the same time, it was pointed out that the previous months had seen clear signs of a recovery in lending, including in particular mortgages to households, which was attributable to the so-called "Safe Mortgage" programme. As regards mortgages, some Council members noted the uncertainty related to the possible reintroduction of the so-called repayment holidays.

When discussing the outlook for economic activity, the Council members noted that according to the March projection, GDP growth would pick up and exceed 3% in 2024 (compared to 0.2% growth in 2023). It was emphasised that, according to the projection, following a marked fall last year, domestic demand would grow significantly in 2024. The results of the projection point, in particular, to a robust recovery of consumption, supported by high wage growth, including significant wage rises in the public sector and growth in the minimum wage, as well as by higher social benefits. Continued growth in investment is also forecast.

It was pointed out that GDP forecasts were subject to uncertainty related to external factors, including the geopolitical situation and economic conditions in Europe, as well as domestic fiscal policy and the developments in food and energy prices. The Council members also pointed to persisting uncertainty regarding the degree to which higher household income would translate into growth in consumer spending, and to which it would result in growth in savings. Certain Council members pointed out that according to the March projection, GDP growth might be somewhat higher in 2024-2025 than that indicated in the November projection.

At the meeting it was noted that according to Statistics Poland preliminary data, annual consumer price growth declined significantly in January 2024 and was lower than the median of the forecasts of market analysts. It was pointed out that in less than a year since reaching its peak, CPI inflation had fallen by over 14 percentage points. It was estimated that core inflation had also declined markedly, although it remained higher than headline CPI inflation and like in many other economies, it was declining more slowly. At the same time, in January 2024 the fall in producer prices had deepened, confirming the fading of the majority of external supply shocks and reduced cost pressure. Along with the relatively low economic activity growth, this had been contributing to a fall in inflation. 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. Certain Council members pointed out that the effect of high statistical base from the previous year had contributed to a fall in the annual inflation rate in January 2024. They also judged that – despite its decline – core inflation remained high.

The Council members judged that in February 2024 inflation had likely declined again and had returned to a level consistent with the NBP inflation target of 2.5% +/-1 percentage point. It was noted that according to available forecasts, CPI inflation would probably also fall in March 2024.

When discussing the inflation outlook, it was underlined that according to the March projection, price growth might rise again in the coming quarters. However, high uncertainty persisted about the scale of this rise, which was particularly due to the future form of the fiscal and regulatory measures impacting on food and energy prices in the CPI basket. It was noted that in the scenario assuming no increase in the VAT rate on food and unchanged energy prices until the end of 2024, inflation – according to the March projection – would grow slightly in the coming quarters and would run close to the upper band for deviations from the NBP inflation target. However, should the VAT rate on food products be restored from zero to 5% and should subsidies to energy prices be fully or partially removed, in the second half of 2024 inflation would rise significantly, exceeding the inflation target. Certain Council members expressed the opinion that the impact of the shielding measures on food and energy prices on the medium-term inflation outlook was limited.

During the discussion it was pointed out that in the recent period inflation had fallen below the level of the NBP reference rate. The marked fall in inflation amid unchanged NBP interest rates had an upward effect on real interest rates *ex post*, which should be a factor curbing core inflation in the coming quarters.

The Council members underlined that the medium-term inflation outlook, which was also subject to uncertainty, was of significant importance for monetary policy. The majority of Council members drew attention to the fact that according to the March projection – prepared with the assumption of unchanged NBP interest rates – from the second half of 2025, and also in 2026, i.e. over the monetary policy horizon, CPI inflation should be consistent with the NBP inflation target. Alongside that, the Council members noted that average annual core inflation – which in accordance with the projection should continue to gradually decline – would remain higher than headline CPI inflation over the projection horizon. It was also noted that according to the March projection, in 2025 core inflation would be higher than that forecast in November, which was largely due to the greater than expected scale of wage rises in the public sector in 2024. It was also pointed out that in recent quarters inflation, including core inflation, had fallen somewhat faster than indicated in earlier forecasts.

Some Council members underlined that wage growth represented a risk for the outlook of core inflation, including service prices. In the opinion of certain Council members, elevated wage growth over the projection horizon might hamper a sustainable return of CPI inflation to the target. At the same time, in the opinion of certain Council members, the likelihood of inflation running at a level consistent with the NBP inflation target at the end of the projection horizon was too low.

It was judged that demand pressure, and thus core inflation in the coming years, might be additionally boosted by the implementation of other proposed fiscal measures, including the increase in the amount of social benefits or introduction of new ones, as well as the possible increase in the tax-free allowance, although it is currently unclear whether and to what extent these measures will be implemented. The Council members also drew attention to other risk factors for inflation, including those related to the geopolitical situation, which might be of significance for commodity prices and the functioning of international trade.

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 weakened economic conditions and falling inflation pressure abroad supported lower domestic inflation. As a result, annual CPI growth is expected to run at the level consistent with the NBP inflation target in the coming months, while core inflation will remain above CPI inflation. However, inflation developments in subsequent quarters are subject to substantial uncertainty related, in particular, to the impact of fiscal and regulatory policies on price developments, as well as to the pace of economic recovery in Poland and labour market conditions. It was emphasized that should the higher VAT rate on food products be restored and energy prices raised, inflation might rise significantly in the second half of 2024. Alongside that, over the medium term demand pressure in the economy will be stimulated by wage growth stemming i.a. from wage increases in the public sector. Against this background, 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 elevated core inflation, as well as amid the expected further recovery in demand and high wage growth, the level of the NBP interest rates was too low to ensure the sustainable return of inflation to the target in the medium term.

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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