



Minutes of the Monetary Policy Council decision-making meeting held on 4 April 2024

During the discussion at the meeting of the Monetary Policy Council it was noted that signs of recovery were visible in the global economy, although economic activity remained weakened in the euro area – Poland’s main trading partner – where GDP growth was probably only slightly positive in 2024 Q1. In Germany, economic activity may have further declined in 2024 Q1, with particularly weak business conditions in the country’s industrial sector. It was underlined that the growth forecast for Germany had recently been revised downwards and currently indicated a more marked recovery in the German economy only in 2025.

When discussing inflation developments abroad, the Council members noted that despite a sharp fall in annual price growth in many countries in recent quarters, in some of them inflation was still above inflation targets. At the same time, core inflation in a range of advanced economies, as well as in the economies of the Central and Eastern Europe region, remained higher than headline inflation. The Council members pointed out that in many countries the fall in core inflation was hampered by the still high growth in service prices, which was declining only slowly due to the continued elevated nominal wage growth.

When discussing economic activity in Poland, the Council members judged that incoming data indicated an economic recovery. It was pointed out that in January and February 2024 retail sales and industrial output had risen significantly in annual terms, following falls throughout most of 2023. At the same time, at the beginning of 2024 construction and assembly output had declined in annual terms.

When referring to the labour market conditions, it was noticed that nominal wage growth in the enterprise sector had remained high in February 2024. The Council members underlined that amid a further fall in inflation in February 2024, real wage growth in the enterprise sector was running at its highest level in many years. It was, however, also pointed out that a further slight fall in employment had taken place in the enterprise sector.

During the discussion it was noted that growth in zloty-denominated loans to households was increasing. In the opinion of the Council members, this continued to be underpinned by the so-called “Safe Mortgage” programme. At the same time, it was stressed that annual



growth in corporate loans remained negative, mainly due to a fall in the stock of current loans.

When discussing the economic outlook, the Council members judged that activity growth would probably pick up in the coming quarters. The Council members indicated that, in particular, this would be driven by the favourable prospects for domestic demand in view of the elevated wage growth, including due to the increase in the minimum wage and wage rises in the public sector. At the same time, the scale of the economic recovery was subject to uncertainty, while one of the risk factors for the outlook was further development of the economic situation in Poland's main trading partners.

At the meeting it was noted that in February and March 2024 annual consumer price growth was running at a level consistent with the NBP inflation target. In February CPI inflation had declined to 2.8%, and in March, according to the Statistics Poland flash estimate, it had fallen to 1.9% – therefore, within thirteen months since reaching its peak, inflation had fallen by over 16 p.p. The Council members noticed that in a relatively short time price growth had declined significantly, while the social and economic costs of disinflation had been limited. Certain Council members drew attention to the fact that in February 2024 annual price growth of a significant proportion of goods and services included in the CPI basket still exceeded 3.5%.

The Council members pointed out that the fall in CPI inflation had been accompanied by a significant decline in the measures of core inflation, which – according to available estimates – had probably also taken place in March 2024. However, it was noted that inflation excluding food and energy prices remained elevated, and, in particular, it was higher than headline CPI inflation. Certain Council stressed the continuously high – albeit gradually declining – annual growth in service prices. At the same time – although certain Council members noticed that the monthly change in industrial producer prices had been slightly positive in February 2024 – producer prices had continued to fall sharply in annual terms, confirming the fading of most of the external supply shocks and the limited cost pressure. Together with the relatively low – despite some acceleration – economic activity growth it was conducive to a decline in inflation. It was judged that the decrease in inflation was supported also by the appreciation of the zloty exchange rate, which was consistent with the fundamentals of the Polish economy. Some Council members pointed out that the observed fall in inflation – under unchanged interest rates – was contributing to a rise in real interest rates, which should limit inflationary pressure also in the medium term.



When discussing the inflation outlook, Council members pointed out that according to available forecasts, in the first half of 2024 CPI inflation would run at a level consistent with the NBP inflation target of $2.5\% \pm 1$ p.p., although it would most likely rise in the coming months. The increase in inflation in the near future would be attributable to the restoration of the VAT rate on food from zero to 5%. At the same time, the Council members noted that developments in energy prices in the subsequent quarters were subject to high uncertainty. Should subsidies to energy prices be fully or partially removed, inflation would rise significantly in the second half of 2024, exceeding the NBP inflation target. In turn, should energy prices be kept unchanged, inflation in the second half of 2024 would rise much weaker, running close to the upper limit of deviations from the inflation target.

When referring to the medium-term outlook, it was pointed out that the potential increase of inflation in the second half of 2024 might also influence inflation expectations. Attention was drawn to the fact that the observed economic recovery and expected growth in demand pressure, in particular due to high wage growth, including in the public sector, would contribute to higher prices. Some Council members noted that the further development of wage growth was the main risk factor for the medium-term inflation outlook, and the persistence of elevated wage growth may delay a sustainable return of CPI inflation to the target. At the same time, certain Council members pointed out that the transmission of higher wages to prices might depend on many factors, including the speed of the recovery in domestic economic activity, changes in corporate profitability, and also the households' propensity to save.

In addition, the Council members indicated that the possible implementation of proposed fiscal measures, such as the increase in the amount of social benefits or introduction of new ones, might also boost demand growth, and as a result, lead to higher inflation, including core inflation. However, certain Council members argued that the room for increasing the expansiveness of fiscal policy was limited, especially in view of the need for increased public expenditure for military purposes. The persistence of other significant sources of uncertainty was also underlined, including, among others, the tense geopolitical situation, commodity price developments and the economic conditions in the environment of the Polish economy.

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, it was expected that in the coming months annual CPI growth would run at the level consistent with the NBP inflation target, however, restoring higher VAT on food products would act toward the rise in inflation. This will be accompanied by a gradual decline in core inflation, although core inflation will stay above CPI inflation. In subsequent quarters, inflation developments are, however, associated with substantial 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 and labour market conditions. It was emphasised that should energy prices be 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.

A view was expressed that given the elevated core inflation, as well as the expected further recovery in demand and high wage growth, the current level of NBP interest rates was too low to ensure the sustainable return of inflation to the target in the medium term.

When referring to the possible future decisions, some Council members assessed that, considering current macroeconomic conditions, it can be justified to keep the NBP interest rates unchanged at subsequent meetings. In turn, certain Council members expressed the opinion that should risks contributing to higher inflation in the medium term materialise in the coming quarters, the need of increasing the interest rates in the future cannot be excluded.

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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