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

During the discussion at the meeting of the Monetary Policy Council it was noted that in 2024 Q1 GDP had grown in the euro area in annual terms, following a fall in the second half of 2023. However, it was underlined that despite a slight recovery, activity in this economy was still weakened, with a better economic situation in those euro area countries with whom Poland has less economic ties. In Germany – Poland's main trading partner – annual GDP growth remained negative in 2024 Q1, although signs of recovery had also appeared there. Meanwhile, in the United States annual GDP growth was still relatively high in 2024 Q1, despite being somewhat lower than market expectations.

When discussing inflation developments abroad, the Council members noted that in April 2024 HICP inflation in the euro area stood at 2.4% (like in March), amid a further fall in core inflation. At the same time, it was pointed out that in the United States price growth in the recent period had been higher than expected, and in March CPI inflation had stood at 3.5% (compared to 3.2% in February 2024), amid a stabilisation of core inflation. Due to diverging disinflation processes in the two largest developed economies, it was noted that expectations of financial market participants indicated the possibility of an interest rate cut by the European Central Bank at the next meeting and interest rates kept unchanged by the Federal Reserve of the United States in the coming months.

When discussing economic activity in Poland, the Council members judged that the incoming data indicated a gradual economic recovery, although certain monthly data from March 2024 were below expectations. It was pointed out that the annual GDP growth in 2024 Q1 had most probably been higher than in the previous quarter. Attention was drawn to the fact that data on retail sales in 2024 Q1 suggested a gradual growth in household demand, while data on industrial and on construction and assembly output might signal a decline in investment growth.

When referring to the labour market conditions, it was noted that annual nominal wage growth in the enterprise sector had remained high in March 2024. The Council members underlined that amid inflation running at the level consistent with the NBP inflation target, in recent months real wage growth in the enterprise sector had been running at its highest level in many years. It was stressed that business surveys indicated slower wage

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growth in 2024 Q2. The Council members also pointed to a further slight fall in employment in the enterprise sector.

During the discussion it was noted that annual growth in zloty-denominated loans to households continued to increase and that growth in corporate investment loans had picked up, although annual growth in current corporate loans had remained negative.

At the meeting it was pointed out that – according to the Statistics Poland flash estimate – in April 2024 annual consumer price growth amounted to 2.4% (compared to 2.0% in March 2024), i.e. it had remained at a level consistent with the NBP inflation target. The Council members underlined that the increase in annual growth compared to the previous month was mainly the result of an increase in food prices caused by the restoration of the VAT rate from zero to 5% and by an increase in fuel prices. At the same time, the Council members indicated that in April 2024 inflation net of food and energy prices had probably declined again, although it was still higher than the headline CPI inflation. It was noted that especially growth in services prices remained elevated, particularly due to strong wage growth amidst the relatively high share of wages in the costs of this sector. Certain Council members drew attention to the fact that in March 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 recently the sharp fall in industrial producer prices in annual terms had continued, confirming the fading of most of external supply shocks and limited cost pressure. Together with the relatively low – despite some acceleration – economic activity growth this had been conducive to limiting inflation. It was judged that inflation was also curbed by the appreciation of the zloty exchange rate, which was consistent with the fundamentals of the Polish economy. Some Council members indicated that the current level of interest rates was a factor that should limit inflationary pressure also in the medium term. These Council members underlined that inflation expectations were running at low levels.

When discussing the inflation outlook, Council members pointed out that according to the available forecasts, in 2024 Q2 CPI inflation would remain at a level consistent with the NBP inflation target of 2.5% ± 1 p.p., although it would most likely continue to rise in the coming months, due to higher food and energy price growth. At the same time, the Council members noted that developments in energy prices in the subsequent quarters were still 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 growth in food prices driven by the increase in the VAT rate, and the expected increase in energy prices in the second half of 2024, might also influence inflation expectations. However, it was indicated that although higher food and energy prices might raise wage demands and upward pressure on social benefits, at the same time they would reduce growth in household disposable income, contributing towards lower demand pressure. The Council members noted that the further development of wage growth was the main risk factor for the medium-term inflation outlook. It was 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 households' propensity to save.

The Council members noted that fiscal policy remained a risk factor for the inflation outlook. It was stressed that so far some of the declared fiscal measures had still not been implemented, such as the increase in the amount of social benefits or the introduction of new ones. 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 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 is expected that in 2024 Q2 annual CPI growth will run at the level consistent with the NBP inflation target. This will be accompanied by lower than in the previous quarters inflation net of food and energy prices, although – due to elevated growth in services prices – it will stay above the CPI inflation. In subsequent quarters, inflation developments are, however, associated with substantial uncertainty related i.a. to the impact of fiscal and regulatory policies on price developments, including on inflationary expectations, 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 significant wage growth, stemming, among others, 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.

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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