Minutes of the Monetary Policy Council decision-making meeting held on 5 June 2024

During the discussion at the meeting of the Monetary Policy Council it was noted that the global economic conditions were gradually improving, but continued to vary across economies and sectors. A gradual improvement was also observed in Poland's main trading partners. According to forecasts, Germany should see some recovery in activity in 2024 Q2, yet it was underlined that it would probably be slow. Meanwhile, economic conditions in the United States remained better than in the euro area.

While discussing inflation developments abroad, the Council members pointed out that price growth in the euro area and the United States was slightly above the inflation targets. At the same time, core inflation remains higher than headline inflation. It was highlighted that according to preliminary Eurostat data, in May 2024 core inflation in the euro area rose somewhat for the first time in almost a year. It was pointed out that the elevated service price growth in the major economies continued to act as a key factor hampering disinflation. This was related, on the one hand, to higher demand growth for services than goods, and on the other, to cost factors associated with continued elevated nominal wage growth.

The Council members drew attention to the fact that the expectations of financial market participants indicated a high probability of an interest rate cut by the European Central Bank in June 2024. In the United States, in turn, interest rates are more likely to remain stable in the coming months according to market expectations.

While discussing economic activity in Poland, the Council members assessed that the recovery was continuing, although the most recent data were mixed. GDP growth had accelerated to 2.0% in 2024 Q1. It was observed that amid rising real wages, annual consumption growth had picked up markedly (reaching 4.6%, the highest in almost two years). It was pointed out that the recovery in demand might gradually translate into price pressures. At the same time, it was stressed that consumption growth was slower than real wage growth, suggesting a build-up of savings. In contrast, annual investment growth had declined significantly. Certain Council members emphasised the impact of developments in the real net household assets on consumption.

When discussing monthly data, it was pointed out that industrial output grew by almost 8% in April, which was the largest increase in around one and a half year – although this

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was in part due to statistical factors. On the other hand, retail sales growth in April was weaker than market forecasts. At the same time, the PMI index for May decreased, adding to the uncertainty about the pace of further recovery in manufacturing.

With regard to the labour market conditions, it was noted that nominal wages in the national economy grew by more than 14% y/y in 2024 Q1, supported by wage rises in the public sector and increase in the minimum wage. Certain Council members emphasised that wage growth in 2024 Q1 was higher than indicated by the March projection. On the other hand, the annual wage growth in the enterprise sector declined again in April and – following sharp rises in the first three months of the year – the average wage was somewhat lower than in March. It was indicated that amid the slightly higher inflation, in April real wage growth had also slowed down somewhat, while remaining close to the historically high level. It was pointed out that employment in enterprises had fallen slightly again in April, although the number of job offers had increased compared to March. At the same time, the number of the working persons according to the LFS declined in 2024 Q1. When discussing wage growth, certain Council members pointed out that part of the household sector's income came from business activity.

During the discussion, it was pointed out that annual growth in lending to households had increased in recent months, boosted by the "2% Safe Mortgage" programme, while monthly housing loan growth was decreasing after the closure of the acceptance of applications under this programme. It was observed that in June 2024, the so-called loan repayment holidays in their new form had taken effect. At the same time, annual corporate loan growth remains close to zero.

At the meeting, it was indicated that – according to the Statistics Poland flash estimate – in May 2024 CPI inflation stood at 2.5% y/y. It was underlined that price growth had been in line with the medium-term inflation target (of 2.5% +/- 1 percentage points) for the fourth consecutive month. In May, annual energy price growth, including fuels, increased. Attention was drawn to the slightly slower annual growth in the prices of food and non-alcoholic beverages, suggesting that strong competition in the retail market continued to affect prices. It was estimated that inflation net of food and energy prices had decreased again in May, with the decline being probably slightly deeper than market forecasts. However, it was underlined that this measure of core inflation remained higher than headline CPI inflation, as a result – in particular – of the still elevated service price growth, amid high wage growth with the relatively high share of wages in this sector's costs.

Certain Council members indicated at that point that despite the rising demand for services, annual service price growth had not been rising in recent months.

The Council members pointed out that the sharp annual fall in producer prices had continued recently, confirming the fading of most external supply shocks and cost pressure reduction. Together with the relatively low – despite some acceleration – economic activity growth, this was 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. The majority of Council members indicated that the current level of interest rates was a factor that should limit inflationary pressure also in the medium term. At the same time, certain Council members pointed to a slight increase in the measures of consumer inflation expectations in the recent period.

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. In the second half of 2024, in turn, should energy prices increase, inflation will rise according to forecasts and exceed the NBP inflation target. At the same time, the Council members noted that energy price developments in the subsequent quarters were still subject to uncertainty, including that related to the future decisions of the President of the Energy Regulatory Office.

When referring to the medium-term inflation outlook, it was pointed out that the expected energy price growth in the second half of 2024 might, on the one hand, reduce demand pressure on other consumer goods and services, yet on the other hand, it might affect inflation expectations. The Council members observed that further wage developments and the degree of pass-through of wage growth to consumer demand were also a factor of uncertainty. At the same time, it was judged that the deterioration in the financial results of enterprises in 2024 Q1 might limit the headroom for companies to absorb the rising wages. Certain Council members pointed out that companies' financial performance may vary depending on their size.

The Council members noted that fiscal policy remained a risk factor for the inflation outlook. It was stressed that so far some of the proposed fiscal measures had still not been implemented, such as the increase in the amount of social benefits or the introduction of new ones. At the same time, attention was drawn to the fact that Poland might become subject to the excessive deficit procedure, although at this stage it was difficult to assess what impact it would have on fiscal policy in the coming years. The persistence of other significant sources of uncertainty was also underlined, including the tense geopolitical situation, commodity price developments and the economic conditions in Poland's main trading partners.

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 lower inflation pressure abroad, curbed domestic inflation. As a result, 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 service 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 inflation 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 would increase in the second half of 2024. Alongside that, over the medium term demand pressure in the economy will be stimulated by a marked 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 recovery in consumer 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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