Minutes of the Monetary Policy Council decision-making meeting held on 4 January 2022

At the Council meeting, it was observed that the activity in global economy continued to recover, yet the economic conditions were under a negative impact of supply-side constraints in some markets, high commodity prices and re-escalation of the pandemic in certain countries. It was pointed out that the rise in infections adversely affected activity in the service sector of the euro area, including Germany. However, economic conditions in the euro area manufacturing sector remained relatively favourable. When referring to the global economic outlook, it was stated that current forecasts pointed to further relatively fast global GDP growth in 2022, although slower than in 2021. At the same time, it was observed that the pandemic situation, in particular the impact of the spread of the Omicron coronavirus variant, remained a factor of uncertainty for global economic growth. It was emphasized, however, that according to current assessments, its impact on economic activity might be limited.

It was indicated that the prices of energy commodities and some agricultural commodities were markedly higher than a year before. It was noted that in December 2021 large fluctuations in natural gas prices occurred in Europe, mainly related to Russia's policy on the supply of this commodity, while at the end of December natural gas prices were 5 times higher than a year before. It was emphasized that the very high prices of CO_2 emissions allowances related to the tightening of the EU climate policy had been an additional factor increasing the prices of energy carriers in Europe. At the same time, disruptions in global supply chains persisted, and prices of international transport remained elevated. In the opinion of the Council, the above factors, along with the strong demand recovery, were contributing to the marked increase in global inflation. In particular, it was noted that in November HICP inflation in the euro area reached 4.9%, the highest level in the history of this currency area, and in the United States CPI inflation in November stood at 6.8%, the highest level in about 40 years. Inflation forecasts for the coming quarters had been also revised upwards, which, in the Council's opinion, indicated the risk that the impact of the pandemic shock on inflationary processes would be more persistent than previously assessed.

Narodowy Bank Polski ul. Świętokrzyska 11/21 00-919 Warszawa, Poland phone +48 22 185 28 88 sekretariat.rpp@nbp.pl

NARODOWY
BANK POLSKI

The Council members pointed out that given the considerable growth in both current and expected inflation, many central banks were withdrawing monetary accommodation, although the monetary authorities' decisions were not homogenous and reflected the country-specific conditions for the conduct of monetary policy. It was observed that central banks in Central and Eastern Europe were raising their interest rates. The US Federal Reserve has increased the pace of reduction in monthly asset purchases and market expectations indicate that the first interest rate rise in this economy could occur already in the first half of 2022. At the same time, the ECB is keeping negative interest rates, although it announced a reduction in the scale of its net asset purchases in 2022.

When analysing the situation in the Polish economy, Council members emphasized that the recovery continued despite the autumn wave of increase in infections. This was indicated by the monthly data for November 2021, according to which industrial output rose by 15.2% y/y, and this increase comprised almost all the branches, including the automotive industry. Attention was also drawn to the marked rise in construction and assembly production as well as retail sales. It was emphasized that high demand in the labour market persisted, which was reflected in declining unemployment and rising employment levels. It was also noted that this was accompanied by a substantial increase in job offers, which might point to firms increasingly struggling to fill vacancies due to the labour shortages. Under these circumstances the wage growth in the corporate sector continues to be relatively high. The majority of the Council members judged that a further increase in labour demand might translate more into higher wages rather than higher employment. At the same time, the majority of Council members pointed to the risk of a potential intensification of wage pressure due to the elevated inflation.

Referring to the economic outlook, it was assessed that the economic situation would remain favourable in the coming quarters. However, it was pointed out that the impact of the pandemic on the global and domestic economy as well as the impact of supply constraints and the high prices of energy commodities, which constituted negative supply shocks for the economy, were factors of uncertainty for the pace of activity growth.

During the meeting, it was observed that inflation in Poland had risen to 7.8% in year-on-year terms in November 2021, and stood at 1.0% in monthly terms. In the Council's assessment, inflation growth had been mostly driven by external factors, including the surge in the global prices of energy and agricultural commodities in the second half of 2021, the record-high increase in the prices of CO_2 emissions allowances, rising prices of goods, whose supply was constrained by the global pandemic disruptions, as well as the earlier increases in electricity prices and in waste disposal charges. It was judged that the ongoing economic recovery, including the growth in demand stimulated by rising household income, also contributes to the upward pressure on inflation. In this context, rising core inflation indices were highlighted, along with the increasing share of products and services, whose prices were rising at an accelerated pace. It was judged that this could contribute to higher inflation expectations.

While analysing the outlook for inflation, the Council members emphasised that according to forecasts, price growth in 2022 would remain considerably elevated. Along with the continued impact of the higher energy and agricultural commodity prices and CO_2 emissions allowances, as well as the prices of goods whose supply is constrained by the global pandemic disruptions, a substantial rise in regulated tariffs on energy carriers, including electricity and natural gas for households, will contribute to inflation remaining elevated in 2022. It was also stressed that amid the favourable economic conditions, the rising prices of energy and the remaining costs would be gradually passed on to the prices of other goods and services in the CPI basket. In the opinion of the majority of the Council members the main factors contributing to higher inflation in 2022 constituted negative supply shocks. However, certain Council members emphasised the increasing significance of domestic factors. At the same time, it was observed that a reduction in some tax rates as part of the so-called Anti-inflationary Shield would have a curbing impact on inflation. The significance of the exchange rate channel in the monetary transmission mechanism was also highlighted.

It was noted that inflation would decrease in a longer perspective, supported by the expected fading of some global shocks currently boosting price growth, and by the hitherto NBP interest rate increase. However, the majority of the Council members were of the opinion that amidst further recovery in domestic economic activity and expected continuation of the favourable labour market conditions, as well as probably more lasting impact of the external shocks on price growth, a risk of inflation running above the NBP inflation target in the monetary policy transmission horizon persisted.

The majority of the Council members assessed that in order to bring inflation down to the NBP target in the medium term the NBP interest rates should be raised again. In the opinion of the Council members, the NBP interest rate rise would also curb inflation expectations. Certain Council members expressed the opinion that another interest rate hike generated the risk of a negative impact of this factor on economic conditions, as it would translate into a further increase in the debt-servicing costs of bank loans for household and enterprises.

The Council decided to raise the NBP reference rate by 0.50 percentage points, i.e. to 2.25% and to set the remaining NBP rates at the following levels: the lombard rate at 2.75%, the deposit rate at 1.75%, the rediscount rate at 2.30% and the discount rate at 2.35%.

The Council rejected the motion to raise the basic required reserve ratio from 2.0% to 3.5% and the motion to change the remuneration of the required reserves, from the level of the NBP reference rate to the level of the NBP deposit rate.

The Council members pointed out that the Council's decisions in the coming months would continue to be aimed at reducing inflation to a level consistent with the NBP inflation target in the medium term, while taking into account economic conditions, so as to ensure medium-term price stability and at the same time support sustainable economic growth after the pandemic shock. The Council's assessment regarding the total scale of monetary tightening necessary for achieving these goals would consider incoming information on perspectives for inflation and economic growth, including the situation in the labour market. Certain Council members expressed an opinion that ongoing significant uncertainty remained an important factor to be accounted for in monetary policy decisions.

Publication date: 10 February 2022