Minutes of the Monetary Policy Council decision-making meeting held on 8 March 2022

At the Council meeting, it was observed that after a strong growth of global economy in 2021, at the beginning of 2022 economic activity has softened somewhat in some countries, amid a surge in the pandemic. However, it was noted that along with the improving epidemic situation in the United States and the euro area, economic sentiment indicators in these economies had picked up, signalling improving conditions, both in the industrial and the services sector.

During the meeting it was stressed that after the outbreak of the Russian military aggression against Ukraine, uncertainty regarding further course of global macroeconomic situation had increased significantly, including in Europe. It was assessed that Russian aggression and the related economic sanctions would contribute to slowing down the activity growth in many economies. Yet the scale of the impact would depend on the duration and course of the aggression, the range of sanctions imposed and the way economic agents adapt to these conditions.

It was pointed out that the Russian military aggression against Ukraine had contributed to a marked deterioration of sentiment in global financial markets, which had a downward effect on the prices of many assets and led to a depreciation of many currencies, including those of the Central and Eastern Europe region. This was accompanied by another strong increase in global commodity prices related to the expected reduction in supply of commodities from Russia and Ukraine. In particular, it was pointed out that at the beginning of March the prices of gas in Europe were more than twice as high as in January, and that Brent oil prices had temporarily reached the highest level since 2008. Coal prices had also risen sharply. At the same time, the prices of agricultural commodities – including wheat and maize – also markedly increased. It was observed that the upward pressure on the prices of agricultural commodities would be driven not only by their limited supply from Russia and Ukraine, but also by rising prices of nitrogenous fertilisers which are produced using natural gas. It was also pointed out that international transport prices were still elevated, and that disruptions in global supply chains continued and might be intensified by Russian military aggression against Ukraine.

In the opinion of the Council, amid the Russian military aggression against Ukraine the risk of further rise in global inflation, including in the external environment of the Polish

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

economy, has grown. It was observed that already before the start of the Russian aggression, inflation in many countries had reached its highest levels in decades. In the euro area, HICP inflation rose to 5.8% in February, and in the United States, CPI inflation rose to 7.5% in January. It was pointed out that the accelerated price growth in these economies resulted mainly from supply-side factors – including, in particular, more expensive commodities – yet the recovery in demand and low unemployment level had been also driving the prices upwards, leading to a significant increase in core inflation.

The Council members indicated that amidst a marked increase in inflation, many central banks were withdrawing monetary accommodation. It was highlighted that the central banks in Central and Eastern Europe continued to raise interest rates, and that the ECB kept negative interest rates, although it had been reducing the scale of asset purchases. It was also pointed out that the US Federal Reserve had signalled the termination of asset purchases in March and a start of interest rate increases.

When analysing the situation in the Polish economy, Council members pointed out that according to available data, the economic situation remained favourable. It was observed that GDP growth in 2021 Q4 amounted to 7.3% according to preliminary estimate by Statistics Poland, on the back of a marked increase in consumption and investment. It was emphasised that the favourable economic conditions had continued into early 2022, as evidenced by a rapid growth in retail sales and industrial output. At the same time, attention was drawn to the favourable situation in the labour market, reflected in a further increase in employment and a marked increase in the average wage in the corporate sector, although wages were growing slightly slower in January than in December 2021.

It was indicated that Russian military aggression against Ukraine and the related sanctions would have a negative impact on economic activity in Poland, although the scale of this impact was surrounded with considerable uncertainty. It was pointed out that a decline in exports to Russia, Belarus and Ukraine would have a dampening effect on GDP growth. Yet, it was indicated that this influence was bound to be limited due to the small share of exports to these economies in Poland's foreign trade. However, it was noted that exports to other economies may also slow down, due to the intensified disruptions in supply chains and subdued growth of external demand due to a probable weakening of the economic conditions in countries that are Poland's main trading partners. In addition, activity growth may be slowed down by a moderation in private sector investment – given the heightened uncertainty about the economic outlook – and slower consumption growth amid persistently higher inflation.

At the same time, it was pointed out that in the aftermath of Russian aggression against Ukraine, some factors will support activity growth in Poland. In this context, attention was drawn to the considerable inflow of refugees to Poland, which would generate additional demand for consumer goods and services and would require higher investments related to the migrants, including investment in expanding the health care system, education and increasing the availability of housing. It was also pointed out that defence spending would be increased. Moreover, Council members observed that the inflow of refugees would contribute to increasing supply in the domestic labour market.

The majority of the Council members observed that despite the negative impact of Russian aggression against Ukraine, NBP's March projection pointed to a likely continuation of the relatively favourable economic situation in the coming quarters, despite somewhat slower economic growth. Certain Council members judged that the scale of the weakening of economic activity might be greater than indicated by the central path of the March projection.

During the meeting it was pointed out that inflation in Poland – according to the Statistics Poland flash estimate – increased to 9.2% in January 2022. Council members emphasised that the markedly elevated inflation was mainly driven by a significant rise in the prices of energy and agricultural commodities as well as regulated tariffs for electrical energy, natural gas and heating. At the same time, it was pointed out that prices were also boosted by the ongoing economic recovery, including increased demand stimulated by rising household incomes. It was further observed that the markedly elevated price growth encompassed an increasingly broader group of goods and services, which was accompanied by a rise in core inflation. At the same time, it was noted that the reduction in some of the tax rates under the Anti-inflationary Shield had a curbing effect on inflation.

With regard to the prospects of inflation in Poland, Council members pointed out that according to the NBP March projection, inflation in 2022 and the subsequent years would be higher than previously forecast. It was indicated that in 2022 inflation would be running at a substantially elevated level, which – in addition to the factors that had already boosted price growth – would result from the economic fallout of Russian military aggression against Ukraine. In particular, it was highlighted that the Russian aggression had contributed to a sharp rise in commodity prices, a weakening of the zloty and intensification of disruptions to supply chains. At the same time, according to the NBP March projection, despite being higher than previously expected, inflation will gradually subside in the coming years. This process will be facilitated by the fading of some of the global shocks currently driving up price growth, and the increases in the NBP interest rates. It was observed that declining inflation should also be supported by the appreciation of the zloty, since in the Council's opinion, the market pressure on the weakening of the zloty – observed in the first days following the launch of the Russian military aggression against Ukraine – was not in line with the fundamentals of the Polish economy.

At the same time, the Council members observed that the inflation outlook was subject to high uncertainty in the current environment. Developments in price processes would depend, in particular, on evolution of global commodity prices, which at the moment were highly volatile, the impact of Russia's aggression against Ukraine on global and domestic economic conditions, as well as regulatory factors affecting prices.

Council members assessed that in view of the additional shocks having an upward effect on price growth, and taking into account the expected relatively favourable economic situation in Poland, there persists a risk of inflation running above the NBP inflation target in the monetary policy transmission horizon. Consequently, Council members concluded that, in order to bring inflation down to the NBP inflation target in the medium term, the NBP interest rates should be raised again. The increase in the NBP interest rates will also curb inflation expectations and should support appreciation of the zloty.

The Council decided to increase the NBP reference rate by 0.75 percentage points, i.e. to 3.50% and set the remaining NBP interest rates at the following levels: the lombard rate at 4.00%, the deposit rate at 3.00%, the rediscount rate at 3.55% and the discount rate at 3.60%.

The Council members pointed out that the further decisions of the Council would depend on incoming information regarding perspectives for inflation and economic activity, including the impact of the Russian military aggression against Ukraine on the Polish economy.

Publication date: 8 April 2022