Minutes of the Monetary Policy Council decision-making meeting held on 7 April 2021

During the discussion, the Council members pointed out that the surge in the pandemic, including the spread of new variants of the virus, had recently translated in many countries into tighter restrictions, affecting economic sentiment negatively, although this impact was weaker than during the previous waves of the pandemic. In particular, this concerned European countries, while the situation in the United States and the United Kingdom, where the vaccination process was more advanced, was slightly better.

It was judged that the surge of the pandemic had delayed the expected recovery in the global economy, although the successive waves of infections had had a limited impact on industrial activity. Some Council members emphasised that in the slightly longer term, business conditions in industry might depend on the duration and scale of the tightened restrictions and on the elimination of the currently experienced problems with supply of some materials and components. In this context, attention was also drawn to the persistent downturn in the service sector, especially against the background of renewed restrictions on mobility and the lockdown of certain industries in many countries. Considering the share of services in GDP, the downturn in this sector was translating into further weakness of economic activity in Europe. At the same time, it was pointed out that uncertainty about future developments was on its own a factor dampening investment and consumption.

When referring to the economic situation in the euro area, the Council members observed that higher activity in the industrial sector was accompanied by persistently weak activity in services and retail trade. The Council members expressed the view that the short-term outlook for activity in the euro area had deteriorated somewhat, as restrictions were now expected to be lifted more slowly, and activity in services would pick up later in comparison with the March projection. The Council members observed that the impact of the pandemic on the European economies in 2021 Q2 might be mitigated by the expected acceleration of the vaccination process, provided that the vaccines were also effective against the new mutations of the virus. When referring to the situation in the United States, it was observed that the adoption of the new fiscal package by the US administration, the improved epidemic situation and the fast pace of vaccinations in this country had contributed to an upward revision of forecasts for GDP growth.

The Council members pointed out that the prices of many commodities, including oil, were currently markedly higher than a year ago, which had an upward impact on global inflation. It was emphasised that rising costs of maritime transport and supply shortages in certain markets also contributed to higher inflation. At the same time, the majority of the Council members stressed that the external forecasts pointed only to a temporary rise in inflation in 2021, since price growth would be curbed by the persistently negative output gap and slow wage growth, particularly in the euro area, where, according to the forecasts, the unemployment rate would remain elevated.

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In this context, it was pointed out that due to the persistent weakness of economic conditions and the uncertainty about the economic outlook, monetary policy of major central banks would remain highly accommodative. In particular, these central banks were keeping interest rates low, while conducting asset purchases and signalling the maintenance of loose monetary policy in the future. At its March meeting, the ECB announced an acceleration of the asset purchases, responding to an observed increase in bond yields. Also, the Fed is maintaining a highly expansionary monetary policy stance.

When referring to the Polish economy, it was pointed out that similarly to many other countries, the epidemic situation in March had deteriorated and the sanitary restrictions had been tightened. However, the Council members observed that high frequency data indicated that the impact of the epidemic situation on the economy was considerably smaller than before, although GDP forecasts for 2021 Q1 still suggested a decline in GDP year-on-year. It was observed that activity in some sectors in the first months of the year was closely dependent on the restrictions in place, which translated into a significant curbing of activity in some services, while industrial output continued to grow, supported in particular by sectors with a high share of exports. At the same time, it was stressed that the decline in construction and assembly output had deepened recently, and annual retail sales growth – despite some improvement in consumer sentiment – had remained negative in February. Furthermore, attention was drawn to the fact that this had been accompanied by an increase in average employment in the enterprise sector in month-on-month terms, and slower annual average wage growth in this sector.

The Council members observed that economic activity was expected to recover in the following months. Also, due to the low base in March 2020 – when the outbreak of the epidemic had led to a collapse of economic activity – data for March 2021 might show a strong rise in annual growth of many macroeconomic categories. Looking at the quarters further ahead, the scenario of continued recovery in the second half of 2021 largely depended on the assumed pace of lifting of the restrictions. This, in turn, depended on the course of the pandemic and the progress of the vaccination process. In the opinion of the Council, the main source of uncertainty as regards the scale and pace of recovery continued to be the further course of the pandemic and its impact on economic conditions at home and abroad. The Council members reiterated the opinion that the macroeconomic policy measures, including the easing of monetary policy by NBP in 2020, and the expected recovery in the global economy would have a positive impact on the domestic economic situation. In their opinion, the pace of the economic recovery in Poland would also depend on developments in the zloty exchange rate.

When discussing price developments, the Council members pointed out that inflation in March had picked up to 3.2% y/y. It was observed that inflation was primarily driven by the further increase in fuel prices related to the rising oil prices in the global markets. At the same time, it was emphasised that annual price growth was being boosted by the rise in energy costs that had taken place at the beginning of the year, and the earlier rises in waste disposal charges, i.e. factors beyond the scope of domestic monetary policy. Moreover, it was stressed that the increased operating costs of enterprises due to the pandemic,

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including higher transport costs and temporary disruptions in global supply chains, also continued to boost inflation.

While analysing the short-term inflation prospects, the Council members observed that the statistical base effects relating to fuel price developments, along with the expected further rise in waste disposal charges, would probably contribute in the coming months to a further increase in annual inflation which could exceed the upper band for deviations from the target. Some Council members emphasised in this context that the factors temporarily boosting inflation at the moment were to a great extent of a negative supply-shock nature, and remain beyond the influence of domestic monetary policy. In the opinion of these Council members, as the output gap was persistently negative, there was no excessive demand pressure in the whole economy, and available forecasts indicated a drop in inflation to a level close to 2.5% in 2022. These members indicated that inflation was also expected to rise in the nearest future in other countries.

Certain Council members argued that mainly the European Union's climate policy, which among others had caused a considerable rise in the prices of CO2 emission allowances, might translate into higher energy prices also in 2022, thus having a more persistent impact on CPI developments in Poland. Moreover, certain Council members pointed to constraints in the supply of commodities and intermediate goods, which contributed to an increase in the prices of some products, and to wage pressure reported by the majority of the companies surveyed by NBP, which, in these members' opinion, might also boost inflation in the slightly longer term. In this context, these members highlighted the risk of an increase in inflation expectations. However, the majority of the Council members judged that as the vaccination process progressed and the scale of the epidemic diminished, the impact of global supply factors currently driving up firms' operating costs would fade. They also emphasised that wage growth had been weaker so far than before the onset of the pandemic, which would also have a curbing effect on inflation.

The Council members judged that the NBP measures introduced to limit the economic costs of the pandemic had been effective and, along with the fiscal policy measures – which had been supported by the monetary policy easing – they had alleviated the impact of the pandemic on the Polish economy. While discussing monetary policy, the Council members were of the opinion that at the current meeting interest rates should be kept unchanged and the purchases of securities as part of the structural open market operations should be continued.

The majority of the Council members judged that if economic recovery progressed in 2021 and price growth in the medium term was in line with the inflation target, it would also be advisable to keep interest rates unchanged in the subsequent quarters. In their opinion, the tightening of monetary conditions in response to a temporary rise in inflation, caused largely by negative supply shocks that remains beyond the direct influence of monetary policy, would not limit price growth in 2021, while translating into a slower economic recovery after the pandemic-related slump. At the same time, in the opinion of these Council members, if the economic conditions and outlook were to deteriorate

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significantly, e.g. due to a new surge in the pandemic, further monetary policy easing might be justified, including by a reduction in the interest rates.

Certain Council members argued that should a sharp rise in inflationary pressure appear in the coming quarters, it might be advisable to consider raising NBP interest rates in the second half of 2021. At the same time, the majority of the Council members emphasised that the experience of other central banks pointed to a strong negative economic impact of tightening monetary policy too quickly.

It was observed that NBP's monetary policy mitigated the negative economic impact of the pandemic, supported economic activity and stabilised inflation at the level consistent with NBP's inflation target in the medium term. Due to its positive impact on the financial situation of debtors, it was also conducive to the strengthening of financial system stability.

The Council rejected the motion to raise the required reserve ratio to 3.5% as well as the motion to reduce the remuneration of the required reserve funds from the level of the reference rate (currently 0.1%) to 0.01%.

The Council decided to keep the NBP interest rates unchanged: the reference rate at 0.10%, the lombard rate at 0.50%, the deposit rate at 0.00%, the rediscount rate at 0.11%, and the discount rate at 0.12%.

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