Minutes of the Monetary Policy Council decision making meeting held on 6 April 2022

At the Council meeting, it was observed that the global economic recovery continued at the beginning of 2022, particularly in the United States and in the euro area, although the activity growth slowed down in some economies. Global economic conditions were adversely affected by the prolonged disruptions in international trade and high commodity prices. Council members emphasised that Russian military aggression against Ukraine had contributed to a substantial rise in uncertainty surrounding further global macroeconomic developments. It was noted that this was accompanied by a significant deterioration in sentiment in some economies, and heightened volatility in international financial and commodity markets. At the same time, prices of many commodities continued to increase, and disruptions in international trade have intensified. It was emphasised that forecasts accounting for the impact of the Russian aggression on global economic conditions indicated that activity in the coming quarters would be weaker than previously expected.

During the meeting it was pointed out that at the beginning of 2022 many economies had seen the highest price growth in decades. High commodity prices as well as prolonged disruptions in global supply chains and international transport have remained the main source of global inflation growth. In some economies, rising prices were also driven by growing labour costs, hence core inflation was also increasing. At the same time, it was emphasised that Russian military aggression against Ukraine was contributing to further global inflation growth, mainly due to the related rise in global commodity prices and intensification of disruptions in international trade. In particular, Council members pointed out that oil and natural gas prices were substantially higher than before the Russian aggression. Agricultural commodity prices had also sharply increased– especially wheat – and the global index of agricultural commodity prices had reached the highest level on record. It was noted that the impact of the Russian aggression on Ukraine on prices had already been partially reflected in the March readings of inflation, which had risen substantially in many countries. In particular, it was stressed that HICP inflation in the euro area – according to preliminary data – had risen to 7.5% in March. It was also observed that in some of the euro area economies, including Lithuania, Latvia, Estonia and the Netherlands, price growth in March 2022 was in double digits. At the same time, available forecasts suggest that the upward influence of Russia's aggression on global

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

inflation would be sustained in the subsequent quarters, which would translate into higher than previously anticipated price growth in Poland's external environment.

The Council members pointed out that amidst a strong increase in global inflation, many central banks were withdrawing monetary accommodation. In particular, it was stressed that in March the US Federal Reserve had concluded net asset purchases and had increased interest rates for the first time in over 3 years. It was also indicated that the ECB kept negative interest rates, although in March it had reduced the planned scale of asset purchases, while signalling the possibility of the programme's termination in 2022 Q3. It was noted that banks in Central and Eastern Europe continued to raise interest rates.

When analysing the situation in the Polish economy, Council members pointed out that, according to available data, in 2022 Q1 economic activity remained high, following the strong GDP growth in 2021 Q4. In particular, it was indicated that the robust growth in industrial output had continued in February 2022. It was also observed that retail sales growth remained high, driven, among others, by increased purchases of essential goods and fuels in reaction to the Russian aggression against Ukraine. At the same time, high frequency data point to a further, increased spending on these products in March, when their consumption was additionally boosted by purchases for refugees arriving from Ukraine.

The Council members assessed that the inflow of refugees from Ukraine would also affect the domestic labour market. It was observed that the current situation is favourable for employees: employment continued to rise, wage growth was still robust, and almost half of the enterprises reported vacancies. It was assessed that, although in the short run the outflow of Ukrainians, returning to their homeland to join the fight, might generate temporary bottlenecks in some industries (particularly construction and transport), in the longer run migration should have a positive impact on labour supply in Poland.

In reference to the economic activity outlook, the Council members assessed that Russian military aggression against Ukraine would weaken economic growth in Poland, although the scale of this effect was highly uncertain. Among the factors adding to the uncertainty was the persistence of consumer and business confidence deterioration observed after the onset of Russian aggression and its impact on real macroeconomic processes. It was assessed that the pace of economic growth would be negatively affected by the rise in the prices of commodities and some products, boosting corporate costs and limiting household disposable income. It was pointed out that the reduction in exports to Russia and Ukraine might also contribute to the weakening of economic activity. However, the share of exports to these economies in Polish foreign trade is relatively small, which should limit the negative impact of the reduced sales to these markets on economic activity in Poland. It was also emphasised that at the same time there would be factors supporting the domestic economic conditions, including, additional consumer demand generated by the refugees as well as potential spending necessary to provide them with access to basic services. A the meeting, it was pointed out that economic activity growth would also be supported by fiscal policy measures, among others, the lowering of the personal income tax rate and the planned increase in expenditure on national defence.

At the meeting, it was pointed out that according to Statistics Poland flash estimate, inflation in Poland had risen significantly in March and was running at 10.9% y/y. The Council members emphasised that the increase in inflation in March had been mainly driven by the consequences of Russian military aggression against Ukraine, which was reflected in record high fuel price growth – which reached 28% in monthly terms – and robust growth in the prices of other energy carriers. It was pointed out that this was accompanied by an increase in consumer inflation expectations. At the same time, attention was drawn to the fact that the earlier rise in the prices of energy and agricultural commodities as well as regulated tariffs for electricity, natural gas and heating, continued to contribute to significantly elevated inflation. Council members also observed that prices were also boosted by the ongoing economic recovery, including increased demand stimulated by rising household income. It was further noted that the markedly elevated price growth encompassed an ever broader group of goods and services, which was accompanied by a rise in core inflation. However, it was also pointed out that inflation was being mitigated by the reduction in tax rates under the Anti-Inflation Shield.

With regard to the inflation outlook in Poland, Council members stressed that inflation would remain markedly elevated in 2022, which – apart from factors that had been previously amplifying inflation – was due to the economic consequences of Russian military aggression against Ukraine. At the same time, according to the Council's assessment, inflation will gradually decline in the coming years, although it will be higher than previously expected. The gradual decrease in price growth will result from the fading of some of the global shocks currently boosting prices, as well as from the increases in the NBP interest rates. The decrease in inflation should also be supported by appreciation of zloty exchange rate, which, in the Council's assessment will be consistent with the fundamentals of the Polish economy. At the same time, the Council members stressed that in the current circumstances there was heightened uncertainty regarding future developments of inflation, which was related, among others, to changes in commodity prices, the impact of Russian aggression against Ukraine on the global and domestic economic conditions, as well as regulatory factors affecting prices.

Council members assessed that in view of the above circumstances, including higher than expected price growth – which shifts the expected inflation path upwards in the coming quarters – and taking into account the expected relatively favourable economic situation in Poland, there remains a risk of inflation running above the NBP inflation target in the monetary policy transmission horizon. Consequently, the Council concluded that, in order to bring inflation down to the NBP inflation target in the medium term, the NBP interest rates should continue to be raised. The increase in NBP interest rates is curbing inflation expectations and should support the appreciation of the zloty.

The Council decided to increase the NBP reference rate by 1.00 percentage points, i.e. to 4.50% and set the remaining NBP interest rates at the following levels: the lombard rate at 5.00%, the deposit rate at 4.00%, the rediscount rate at 4.55%, and the discount rate at 4.60%.

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.

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