Minutes of the Monetary Policy Council decision-making meeting held on 8 September 2021

At the Council meeting, it was pointed out that over the recent period the pandemic situation around the world had worsened, particularly as a result of the spread of the Delta variant of the coronavirus. It was underlined that uncertainty about the further course of the pandemic persisted, which in many countries was due to the still relatively low vaccination rates. At the same time, it was indicated that in countries with high vaccination rates the number of infections with the new variant of the virus was also growing. The Council members were of the opinion that at the moment it was difficult to assess how the rise in COVID cases would affect the economic situation around the world, and that the further development of the pandemic continued to represent a significant risk factor for the durability of the global recovery.

Alongside that, GDP data for 2021 Q2 confirmed a sharp rise in economic activity in the largest economies in that period, including a recovery in the services sector as a result of the easing of the previously introduced restrictions to control the spread of COVID. However, it was underlined that the high annual growth rates reflected to a large extent the low reference base in 2020. It was pointed out that in the United States, although economic activity had already returned to the pre-pandemic level, output gap was still negative, and recently – along with the rise in the number of infections – some deterioration in sentiment had been observed as well as slightly worse data from the labour market. In turn, the euro area, including Germany, were still making up for the economic losses resulting from the pandemic, which, according to available forecasts, would not be accomplished until next year. It was also pointed out that in 2021 Q3 some economic indicators for the Chinese economy had declined. Attention was drawn to the fact that economic activity abroad was to a large extent affected by the inadequate supply of certain semi-finished products and the ongoing difficulties with their transport.

It was observed that the global rebound in activity was contributing to the rise in prices of many commodities, including energy commodities and metal prices, which were currently significantly higher than a year earlier. Certain Council members were of the opinion that oil prices would most likely continue to rise. However, according to the majority of the Council members, even with growing demand oil price growth should slow down. At the same time, it was underlined that in recent months the prices of certain agricultural commodities around the world had also risen significantly. The Council

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members pointed out that higher commodity prices along with supply-chain disruptions in certain markets and realisation of pent-up demand, had led to a significant rise in inflation in many economies, including in the United States and the euro area.

At the same time, it was emphasised that, due to the forecast temporary nature of the current rise in inflation, the still subdued economic activity compared to the pre-pandemic trends and uncertainty about the future economic situation, the major central banks were keeping interest rates low, continuing asset purchases, and signalling the maintenance of loose monetary policy in the future. Some Council members underlined that uncertainty about the course of the next wave of the pandemic was prompting many central banks to take a cautious stance towards the tightening of monetary conditions. However, certain Council members pointed out that elevated inflation had prompted certain central banks of the Central and Eastern European region – the Czech National Bank and the Central Bank of Hungary – to raise interest rates.

When assessing the situation in Poland, the Council members indicated that according to the Statistics Poland flash estimate for 2021 Q2, annual GDP growth had risen to 11.1% y/y, while the main factor supporting the rebound in economic activity was strong growth in private consumption driven by pent-up demand and – to a lesser extent – investment growth. The Council members observed that although the very high annual GDP growth was mainly due to the low base effect, significant GDP growth had also been sustained in quarterly terms. At the same time, it was pointed out that although the data confirmed that GDP had made up for the losses caused by the recession in 2020, activity had still not reached the level determined by the pre-pandemic trend.

The Council members judged that the economic outlook remained good – particularly in view of the favourable situation in industry, including in the export-oriented sections. It was assessed that in the coming quarters a further recovery in economic activity would take place. At the same time, the majority of the Council members underlined that the pace of the further recovery was subject to significant uncertainty, mainly due to the future course of the pandemic. It was also pointed out that both supply-chain disruptions and the exhaustion of the pent-up demand could limit the pace of GDP growth. In this context it was indicated that in July 2021 annual growth in retail sales and in industrial and construction output had declined (which was only partially the result of base effects). Yet, certain Council members pointed out that uncertainty about the further recovery is limited due to the high vaccination rate in Poland and adaptability skills of Polish entrepreneurs.

While analysing the labour market situation, the Council members underlined that it remained good. In particular, the LFS data for 2021 Q2 indicated an improvement in the domestic labour market situation in this period. At the same time, average employment in the national economy had not yet reached the pre-pandemic level, and the wages of some employees from the sectors most affected by the earlier restrictions were still subsidised under the anti-crisis support. It was also observed that in July 2021 growth in average employment in the enterprise sector had slowed down in annual terms and annual growth in average wages in this sector had declined slightly. The majority of the Council members also pointed out that in view of the strong growth in labour productivity, annual growth in unit labour costs in the economy had fallen close to zero in 2021 Q2, and had been negative in industry for several months. In the opinion of certain Council members, elevated inflation might boost wage demands of various occupational groups, which would mean that in the coming quarters wage pressure could rise.

At the meeting, it was pointed out that according to the Statistics Poland flash estimate, inflation in Poland rose to 5.4% y/y in August 2021, and fell to 0.2% in monthly terms. The majority of the Council members emphasised that elevated inflation was to a large extent the result of the rise in fuel prices due to the significantly higher global oil prices than a year ago, and also due to the rise in food prices, which was, among others, a result of the spread of ASF and avian flu as well as unfavourable weather conditions. At the same time, the annual inflation rate continued to be pushed up by the increase in electricity prices at the beginning of 2021, as well as the increases in waste disposal charges, i.e. by factors that – like the rising commodity prices – were beyond the control of domestic monetary policy. These Council members observed that inflation was also driven up by the increase in the operating costs of enterprises in pandemic conditions and the costs of international transport, as well as temporary disruptions to global supply chains. Given that according to data for July, growth in prices of fuel, energy and other administered prices accounted for over half of the CPI inflation rate, the majority of the Council members judged that demand-side factors were not causing excessive inflation, and neither had they caused inflation to exceed the inflation target. Alongside that, the Council members observed that although the favourable economic conditions and the realisation of the pent-up demand also supported the current growth in prices, what is essential for monetary policy is how long would the impact of domestic demand factors on inflation last.

The Council members judged that in 2022, after some factors currently boosting price growth fade, inflation was expected to decline. However, the scale of this decline would depend on the strength of the economic recovery, including the developments in the labour market following the phasing out of the anti-crisis measures, as well as on the impact of probable subsequent regulatory and supply shocks, including further increases in electricity and gas prices. Certain Council members pointed out that the high readings of CPI in recent months might translate into an upward revision of the expected inflation path for the coming months. In their opinion, the risk that inflation would not return to the band of deviations from the NBP inflation target in the coming quarters had risen. Some Council members observed that climate policy measures would be a factor increasing inflation also in the long-term perspective, since they may permanently boost not only energy prices, but also prices of other goods containing a so-called carbon footprint. At the same time, it was pointed out that the possible realisation of the risk associated with the pandemic could reduce economic growth in the coming quarters and thus also reduce demand pressure on prices.

Certain Council members highlighted the robust growth in mortgage loans to households. In the opinion of those Council members, a continuation of accommodative monetary policy might increase the risk of excessive growth in housing loans. Other Council members, however, pointed out that the demand for mortgage loans was to a great extent related to meeting households' housing needs and that loans were granted to people with adequate credit standing.

The majority of the Council members were of the opinion that the present meeting should keep interest rates unchanged and continue to pursue NBP's remaining measures. These Council members judged that the monetary policy conducted by NBP supported the consolidation of economic recovery following the pandemic-induced recession and stabilised inflation at the level consistent with NBP's inflation target in the medium term. They drew attention to the fact that keeping NBP interest rates unchanged was currently justified due to the causes of inflation exceeding NBP's target, as well as the continued uncertainty about the robustness and scale of the economic recovery in light of the risks related to the next wave of the pandemic. In their opinion, the tightening of monetary conditions in response to inflation running above the inflation target due to negative supply shocks and regulatory factors would not curb price growth in 2021, while it could halt the economic recovery following the considerable economic downturn caused by the pandemic.

At the same time, the majority of the Council members judged that in the coming months of significant importance to monetary policy would be the assessment of the impact of the next wave of the pandemic on the economy and the assessment of the outlook for activity and inflation in the subsequent years. In the opinion of the majority of the Council members, should the uncertainty about the pandemic and its impact on the economy subside, and forecasts suggest a continuation of favourable economic conditions and the risk of inflation running above the NBP's inflation target in the coming years, it would be warranted to consider adjusting monetary policy. In this context, the results of the November projection of inflation and GDP will also be important.

Certain Council members were of the opinion that the NBP interest rates should be raised at the current meeting. They drew attention to the fact that price growth was currently significantly elevated and that demand factors were also boosting prices. They also judged that heightened inflation expectations and the increased wage pressure might lead to the consolidation of inflation above the NBP's target. In the opinion of these Council members, an increase in the interest rates could reduce such a risk and support the development of inflation at a level consistent with the NBP's inflation target.

The Council rejected the motion to raise the NBP interest rates to the following levels: the reference rate to 2.00%, the lombard rate to 3.00%, the deposit rate to 1.00%, the rediscount rate to 2.01%, and the discount rate to 2.02%, and to set the interest rate on required reserves at 1%.

The Council rejected the motion to raise the reference rate by 15 basis points.

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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