Minutes of the Monetary Policy Council decision-making meeting held on 5 May 2021

During the discussion, the Council members pointed out that in the recent period the pandemic situation varied across the world. It was emphasised that Asia had seen a considerable deterioration in the epidemic situation, mainly due to a rapid rise in the number of COVID infections in India. The number of COVID cases was also heightened in many European countries, although it had started to drop slightly at the end of April. It was pointed out that heightened uncertainty about the further course of the pandemic persisted with the appearance of new virus mutations. The majority of Council members judged that further, periodical increases in COVID-19 cases could not be ruled out along with the resulting strengthening of the sanitary regime. At the same time, these members pointed out that thanks to the progress of the vaccination process, any new waves of the pandemic in Europe would be likely to see fewer COVID cases and a less severe course of the disease.

It was emphasized that the incoming data suggested that world industry had adjusted to functioning under the pandemic and that activity in this sector had increased significantly. However, it was pointed out that the output of goods in some branches of industry was limited by disruptions in international transport and temporary shortages of intermediate goods and materials. The majority of the Council members judged that the impact of those factors on activity in world industry over the longer run would fade.

The favourable situation in world industry also translated into growing activity of this sector in the euro area. At the same time, the situation in the services sector of this economy remained significantly less favourable. As a result, GDP in 2021 Q1 had declined again. Referring to the outlook for the euro area, it was pointed out that the forecasts indicated a recovery in this economy in the second half of 2021. Yet, the majority of the Council members judged that such a scenario was subject to considerable uncertainty and depended on the further development of the pandemic situation.

At the same time, it was pointed out that even in the case of a favourable development of the economic situation, the forecasts pointed to a drop in price growth in the euro area in 2022. In this context it was emphasised that the currently observed rise in inflation in Europe was temporary and was mainly caused by the impact of supply-side factors and a considerable rise in prices of many commodities, including crude oil, compared to the corresponding period of 2021. Certain Council members judged that the growth in oil prices in the recent period had been driven by the current and projected rise in demand for oil and one-off events having a temporary curbing effect on oil supply. These members also pointed to the growth in copper prices.

The major central banks – including the ECB and the Fed – continue their highly accommodative monetary policy and emphasise in their communications the considerable uncertainty about the prospects for the economy and the temporary nature of the factors boosting inflation in 2021. In particular, these banks are keeping interest rates low and

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conducting assets purchases, as well as signalling the maintenance of loose monetary policy in the future.

When referring to the situation in Poland, it was pointed out that the recent period had seen a gradual decline in the number of COVID-19 cases, which was indicative of the fading of the third wave of the pandemic. The improvement in the epidemic situation had made it possible to gradually ease the sanitary restrictions. At the same, it was emphasised that the restrictions which had been in place in the earlier period had exerted a negative impact on activity in parts of the trade and services sectors. This was reflected in a month-over-month decline in retail sales observed in March. This was accompanied by a further, considerable annual decline in the construction and assembly output.

In turn, in March the situation in industry remained favourable, with a further rise in production both in sectors dominated by exports as well as in more domestically-oriented sectors. At the same time, the considerable rise in industrial output in year-on-year terms observed in March was largely the result of the base effect caused by the previous year's economic downturn at the outbreak of the pandemic.

The majority of Council members judged that despite the favourable situation in industry, annual GDP growth in 2021 Q1 had remained negative. They expressed the opinion that subdued investment demand, driven by the persisting uncertainty about the economic outlook, had had a negative impact on economic growth. They pointed out that the investment rebound would probably occur only after the epidemic had been brought under control.

While analysing the labour market situation, the Council members pointed out that in March 2021 average employment in the enterprise sector had declined and that the registered unemployment rate had been slightly above the level recorded at the end of 2020. At the same time, the majority of the Council members judged that in 2021 Q1 the rise in the average wage in the entire economy had probably remained below the pre-pandemic level. In turn, in the opinion of these Council members, the pick-up in wage growth in the enterprise sector in March had partly been the result of base effects and the delayed payment of holiday bonuses.

While referring to the economic outlook, the Council members pointed out that the available forecasts suggested that the subsequent quarters would bring economic recovery. They underlined that the scale and pace of recovery remained uncertain, mainly due to uncertain further course of the pandemic. The majority of the Council members expressed the opinion that despite the progress of the vaccination process, subsequent waves of the pandemic in Poland could not be ruled out. However, they judged that any subsequent waves of the pandemic might bring fewer number of COVID cases, less severe sanitary restrictions and – as a result – less negative impact on the economic situation. Certain Council members judged that the pandemic would probably no longer have a significant impact on economic activity.

Members of the Council upheld their opinion that economic policy measures, including the last year's easing of NBP monetary policy, as well as the anticipated recovery in the global economy would have a positive impact on domestic activity. In their opinion,

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the pace of the domestic economic recovery would also be dependent upon further developments of the zloty exchange rate.

While discussing the price developments, members of the Council pointed out that in line with the GUS flash estimate inflation in April rose to 4.3% y/y. It was pointed out that the rise in inflation was primarily driven by a further rise in fuel prices – which was connected with crude oil prices in the global markets considerably exceeding the previous year's level – as well as higher food prices. At the same time, the annual inflation rate continued to be boosted by increase in electricity prices at the beginning of the year and rising waste disposal charges, namely factors which – similarly to the rise in commodity prices – are beyond the control of the domestic monetary policy. Attention was also paid to the fact that inflation was also boosted by growing costs of international transport and temporary disruptions in global value chains. The majority of the Council members assessed that although the relatively favourable income situation of households also contributed to price increases, its impact on inflation was not excessive and – on its own – had not resulted in price growth exceeding the inflation target.

With reference to inflation in the remaining part of the year, members of the Council assessed that the said supply and administrative factors were likely to cause the annual inflation rate to remain above the upper limit of deviations from the inflation target in the coming months. Certain Council members expressed the opinion that inflation might be additionally boosted by the postponed household spending after the lockdown restrictions had been lifted. Yet, the majority of the Council members pointed out that the impact of this factor would be short-lived.

When analysing the outlook for inflation in the longer run it was pointed out that in 2022, after factors having a temporary boosting effect on price growth had faded away, inflation is expected to decline. At the same time it was pointed out that price developments in 2022 would depend on the sustainability of the economic recovery, including on the future situation in the labour market after COVID relief programmes had been terminated. Certain Council members judged that inflation might remain heightened in 2022.

Certain Council members pointed out that price growth observed in the recent period translated into a decline of interest rates further below zero. Those members assessed that the negative real interest rate of bank deposits was deterring households from keeping bank deposits and urging them to seek alternative way of investing savings, thus boosting prices of certain assets. Yet, other members of the Council indicated that household deposits were posting a considerable growth in year-on-year terms. This was coupled with limited household liabilities resulting from consumer loans and a drop in corporate debt resulting from bank loans.

While discussing monetary policy, the majority of the Council members decided that interest rates should be kept unchanged at the current MPC meeting and the other measures undertaken by NBP should be further pursued. Those members assessed that the heightened inflation level was the result of supply and external factors, namely factors which are beyond the control of the monetary policy, whose impact on price growth would probably be temporary. At the same time those members pointed out that the Polish economy had just embarked on a path to make up for the losses caused by the pandemic and sustainability of the currently observed recovery in the longer term was subject to uncertainty. Therefore – in the opinion of the majority of the Council members – NBP should support sustainability of the economic recovery, by ensuring favourable financing conditions to all economic agents.

The majority of the Council members assessed that, if the uncertainty about the further course of the pandemic, and – as a result – the future economic conditions continue, with the rise in inflation above the target being the result of the factors beyond the control of the monetary policy, it would be advisable to keep interest rates unchanged also in the months to come. In their opinion, the tightening of monetary conditions in response to inflation running above the inflation target as result of negative supply shocks would not curb price growth in 2021, while it could halt economic recovery after a considerable economic downturn caused by the pandemic.

Certain Council members argued that if inflationary pressure intensify markedly in the coming months, it might be justified to consider an increase in the NBP interest rates. At the same time, the majority of the Council members emphasised that such an adjustment would be justified only after the pandemic had come to an end, the economic recovery had consolidated and there was a risk of an excessive rise in inflation driven by demand factors.

The Council rejected the motion to raise the required reserve ratio to 3.5% and the motion to lower the interest rate of required reserve holdings from the NBP reference rate (currently at 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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