Minutes of the Monetary Policy Council decision-making meeting held on 5 May 2022

At the Council meeting, it was observed that in 2022 Q1 conditions in the global economy remained relatively favourable, although prolonged disruptions in international trade, partially related to the successive waves of the pandemic in China, and high commodity prices had a negative impact on the global economic situation. The Council members highlighted that Russian military aggression against Ukraine had contributed to an intensification of these factors and to a substantial rise in uncertainty surrounding further global macroeconomic developments as well as led to a deterioration in economic sentiment. Consequently, activity growth slowed down in some economies in 2022 Q1 and GDP growth forecasts had been revised downwards. At the same time, it was pointed out that although in the United States GDP growth was lower in 2022 Q1 than in the previous quarter, further growth in domestic demand indicated that economic conditions remained good. It was observed that in the euro area GDP continued to grow in 2022 Q1, supported, among others, by a rebound in activity in the German economy following its decline in 2021 Q4.

During the meeting it was pointed out that in the recent period inflation in many countries was still rising, reaching the highest levels in decades. At the same time, price growth forecasts for the coming quarters were significantly revised upwards. High commodity prices as well as prolonged disruptions in global supply chains and international transport remained the main source of rising inflation around the world. The impact of these factors on inflation processes in the recent period had intensified due to the Russian aggression against Ukraine. In particular, oil prices had risen once again, despite the decision of the United States to begin selling its oil supplies. At the same time, European prices of coal and gas were several times higher than a year ago. This was accompanied by a rapid growth in the prices of agricultural commodities, reflected in the agricultural commodity price index running at its highest level on record. The Council members observed that, apart from the factors indicated, in some of the economies rising labour costs were also contributing to the surge in inflation.

At the Council meeting, it was stressed that, according to Eurostat preliminary data, in April 2022 HICP inflation in the euro area reached 7.5%. At the same time, in some economies of this currency area price growth was in double digits. Inflation remained high in the United States as well. At the same time, it was underlined that growth in core

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inflation that accounted for a significant part of consumer price inflation was observed both in the United States and in the euro area.

The Council members pointed out that amidst a strong increase in inflation, many central banks were tightening their monetary policy, although the decisions of the major central banks were not uniform. The US Federal Reserve had concluded its net asset purchases and had raised interest rates for the second time in May. On the other hand, the ECB was keeping the deposit rate negative, although it had reduced the scale of its asset purchases. At the same time, the financial markets were expecting interest rate increases in the euro area later in the year. It was highlighted that recently central banks in Central-Eastern Europe region had continued to increase interest rates.

When analysing the situation in the Polish economy, the Council members pointed out that, according to available data, the good economic conditions had continued in 2022 Q1. It was emphasised that, despite the Russian military aggression against Ukraine, which had contributed to a weakening in sentiment of economic entities, data for March had indicated a further significant rise in economic activity. In particular, retail sales had grown in real terms by 9.6%, which was partly supported by the inflow of refugees. In turn, industrial output had increased in March by 17.3% y/y. Construction and assembly output had also risen significantly.

At the Council meeting it was pointed out that the situation of employees in the domestic labour market remained favourable. Steady employment growth in the enterprise sector continued, the number of job offers was increasing and unemployment was at a record low. It was pointed out that wage growth had picked up to 12.4% y/y in March. At the same time, it was pointed out that the high wage growth could be partly attributed to significant wage growth in mining and transport. It was also observed that although wages were currently growing rapidly, wage pressure had somewhat eased in the enterprise sector, while still remaining at high levels. At the same time, it was pointed out that the easing of this pressure, at least in some sectors, should be supported by the gradual professional activation of refugees.

At the meeting the Council members assessed that a continuation of the favourable economic conditions might be expected in the coming quarters, although a gradual slowdown of economic growth was forecast. It was pointed out that in April consumer sentiment had slightly improved following a significant decline in March. 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 as well as the expected global economic slowdown might also contribute to the weakening of economic activity. At the same time, the domestic economic conditions would be supported by additional consumer demand due to the inflow of refugees as well as expenditure necessary to provide them with access to some services. It was pointed out that domestic demand and economic conditions 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.

Council members also emphasised that currently both domestic and global economic outlook was subject to significant uncertainty stemming from the impact of Russian military aggression against Ukraine. It was pointed out that one of the factors of uncertainty was further development of commodity prices and the decisions about the import of energy carriers, including a potential embargo on Russian oil imports. In this context, the Council members pointed out that the direct deliveries of natural gas from Russia to Poland had been stopped. However, it was highlighted that given the available technical possibilities of obtaining gas from other sources and the relatively high level of stocks in gas storage facilities in Poland, according to the current forecasts it should not have a significant negative effect on domestic economic activity in the coming quarters.

At the Council meeting it was observed that according to Statistics Poland flash estimate, inflation in Poland had increased to 12.3% y/y in April 2022, which was mainly driven by a strong growth in food prices, largely related to a rise in global agricultural commodities prices amid Russian military aggression against Ukraine. It was pointed out that food prices were probably also boosted by increased demand generated by the inflow of Ukrainian refugees to Poland. At the same time, it was emphasised that the earlier increases in energy commodities prices as well as in regulated tariffs on electricity, natural gas and thermal energy, continued to contribute to markedly elevated inflation. Inflation, especially with respect to the prices of goods, was also significantly boosted by disruptions in international trade – aggravated not only by the war in Ukraine, but also by the shutdown of factories and ports in China due to the pandemic – as well as high transport costs. Council members highlighted that the ongoing economic recovery, including an increase in demand driven by rising household incomes, had also had a positive contribution to the price growth. 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 highlighted that inflation was being mitigated by the reduction in tax rates under the Anti-Inflation Shield. Yet, at the same time, certain Council members pointed out that expected more expansionary fiscal policy would have pro-inflationary effects.

With regard to the inflation outlook in Poland, the Council members stressed that in the coming quarters inflation would remain markedly elevated due to a further impact of the factors currently amplifying price growth, including those related the Russian military aggression against Ukraine. In the Council's assessment, in the coming years inflation will gradually decline, although it will be higher than previously expected. The gradual decrease in price growth will result from the expected 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 high uncertainty regarding future developments of inflation prevailed, as related, among others, to changes in commodity prices, impact of the Russian aggression against Ukraine on the global and domestic economic conditions, as well as regulatory factors affecting prices.

The 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 0.75 percentage points, i.e. to 5.25% and set the remaining NBP interest rates at the following levels: the lombard rate at 5.75%, the deposit rate at 4.75%, the rediscount rate at 5.30%, and the discount rate at 5.35%.

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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Publication date: 10 June 2022