Minutes of the Monetary Policy Council decision-making meeting held on 9 June 2021

At the Council meeting it was pointed out that May had seen an improvement in the pandemic situation around the world. Nevertheless, significant uncertainty about the further development of the global pandemic persisted. In many countries, particularly in developing ones, the vaccination process was slow and the epidemic situation remained difficult. In many countries vaccination of a sufficient proportion of the population, which would allow to contain the epidemic without the need to introduce restrictions in the future, will be challenging.

The gradual easing of sanitary restrictions in the recent period had led to an improvement in business conditions in the services sector in many economies, including in the euro area. At the same time, economic indicators in industry suggested a further recovery in activity in this sector, and in certain markets supply-side constraints were emerging. However, much of incoming data is heavily distorted by statistical base effects and the realisation of pent-up demand by some households and firms, which temporarily boosted expenditure on certain goods and services.

The Council members drew attention to the fact that the rebound in economic activity currently under way in many economies was taking place following the sharpest fall in GDP in decades. In this context certain Council members underlined that in the euro area GDP was significantly lower than before the pandemic and that employment was still falling in 2021 Q1.

It was judged that the recovery was contributing to the rise in commodity prices in the global markets, including in oil prices, which were significantly higher than a year earlier. Along with base effects, a rise in international transport costs, and supply-side disruptions related to the pandemic, which were taking place amid the opening of economies following the last wave of the pandemic, this was boosting global inflation. Some Council members underlined that in the United States the annual inflation rate had exceeded 4% and was the highest for a dozen or so years, while core inflation was the highest for three decades. These Council members underlined that inflation in the euro area had also risen significantly in recent months.

During the discussion it was pointed out that despite a significant rise in inflation in the United States, the Federal Reserve was keeping interest rates close to zero, was conducting asset purchases, and had not signalled a tightening of monetary policy, while pointing out that heightened inflation was transitory. At the same time, the European Central Bank declared that it would continue its pandemic emergency purchase programme until at least March 2022. As a result, the financial markets expected that the ECB's deposit rate would remain negative at least for the following 3 years.

When assessing the situation in Poland, the Council members pointed out that 2021 Q1 had seen a 0.9% fall in GDP in annual terms. However, it was underlined that annual growth in consumption and investment was slightly positive. It was pointed out that investment had

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been boosted by enterprises investing in means of transport and machinery and equipment. At the same time, it was noted that consumer demand had not yet returned to the pre-pandemic level, which confirmed that the elevated inflation was not related to excessive growth in demand.

The Council members judged that the easing of the epidemic restrictions had had a positive impact on the economic situation in the recent period. However, it was underlined that the incoming monthly data should be interpreted with caution, since in March and April most annual macroeconomic indicators had been heavily distorted by statistical base effects.

In recent months the incoming data had indicated a further improvement in economic conditions, with persisting differences between sectors. In April 2021, annual industrial output growth and retail sales growth had risen significantly. However, it was underlined that while industrial output in April had been higher than before the pandemic, retail sales had still not reached the pre-pandemic level. At the same time, annual growth in construction and assembly output had remained clearly negative. Attention was drawn to the improvement in consumer sentiment, which, however, remained less optimistic than before the pandemic, and to the improved financial results of enterprises.

While analysing the labour market situation, the Council members underlined that although annual employment growth in the enterprise sector had been positive in April 2021, in monthly terms employment had fallen and remained lower than before the outbreak of the pandemic. Moreover, a large number of jobs continued to be subsidised by public funds. The unemployment rate remained higher than before the pandemic.

During the Council meeting it was pointed out that in 2021 Q1 wage growth in the economy had remained lower than before the pandemic. Although annual wage growth in enterprises had picked up in April, after excluding base effects it remained close to that observed in 2021 Q1 in the whole economy. At the same time, some Council members emphasised that corporate revenue had risen much faster than wages in 2021 Q1. As a result, they judged that there was no cost pressure in the economy that would result from excessive wage growth. These Council members also pointed to the further rise in the number of immigrants last year, which might curb any potential tensions in the labour market related to a shortage of employees. On the other hand, certain Council members drew attention to the fact that a significant number of surveyed firms reported upward pressure on wages from employees.

The majority of the Council members were of the opinion that lending growth remained low and was not contributing to inflation rising above the NBP inflation target. It was pointed out that in May 2021 annual credit growth in the economy had stood at 2.5%. Credit growth had been supported by a further increase in housing loans; however, in the case of enterprises annual lending growth had remained markedly negative while consumer credit growth had been close to zero. However, the majority of the Council members judged that housing loan growth remained moderate and lower than wage growth. Against this backdrop certain Council members underlined that annual growth in prices of residential real estate was significantly positive; however, in recent quarters it had declined and demand in this market was partly related to the activity of foreign investors due to the persistence of low interest rates abroad. On the other hand, while discussing monetary aggregates, certain Council members pointed out that money supply had risen significantly in recent quarters and public debt was a significant factor contributing to its creation.

At the Council meeting it was pointed out that according to the GUS preliminary data, May saw an increase in annual CPI to 4.8% (in monthly terms CPI stood at 0.3% and decreased as compared with the previous month). In particular, rapid growth in fuel prices in annual terms was observed, which was the result of growth in global oil prices and strong base effects. At the same time, annual food price growth picked up. The majority of the Council members underlined that annual inflation also continued to be elevated by other factors beyond the influence of domestic monetary policy, including the increase in electricity prices which took place at the beginning of the year and the increase in waste disposal charges. In this context, these Council members drew attention to the fact that according to the full data for April, the increase in fuel prices and prices of goods and administered services accounted for almost half of the CPI inflation rate. As a result, the majority of the Council members judged that although demand factors also supported price growth, they were not causing inflation to exceed the inflation target.

While discussing inflation expectations, some Council members pointed out that, although in surveys consumers noticed price growth, the balance statistics describing trends in consumer opinions on future changes in prices had shifted towards lower inflation in recent months and had reached the lowest level for 2 years. These Council members also underlined that although inflation forecasts of financial sector analysts had recently remained elevated, they continued to indicate a gradual decline in inflation in the coming years. On the other hand, certain Council members pointed out that a significant number of entrepreneurs expected faster price growth in the future. These Council members also judged that although inflation expectations of households were not rising, the majority of them expected inflation in the future to be close to the level that is observed currently.

The majority of the Council members judged that as a result of factors beyond the influence of domestic monetary policy, annual inflation in the coming months was likely to remain above the upper limit of deviations from the inflation target. However, the majority of the Council members were of the opinion that next year, after the factors temporarily boosting price growth fade, a decline in inflation was expected. These Council members also pointed out that the development of inflation in 2022 would depend on the robustness of the economic recovery, including the labour market situation following the phasing out of the anti-crisis measures. The Council members also drew attention to the fact that the level of inflation next year would depend on the fiscal policy stance.

Certain Council members were of the opinion that forecasts pointing to a decline in inflation in the coming quarters were subject to uncertainty. They pointed out that amid the ongoing economic recovery, the observed rise in inflation above the NBP inflation target might lead to an increase in inflation expectations and the consolidation of inflation at a level above the NBP inflation target in the coming quarters. Certain Council members judged that the growth in money supply might also boost inflation.

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The majority of the Council members were of the opinion that the present meeting should keep interest rates unchanged and continue to pursue the 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 the NBP's inflation target in the medium term. They drew attention to the fact that keeping the NBP interest rates unchanged was currently justified due to the sources and the expected temporary nature of inflation exceeding the NBP's target, as well as the uncertainty about the persistence and scale of the economic recovery. The Council members underlined that as indicated in *Monetary Policy Guidelines for 2021*, due to the macroeconomic and financial shocks, inflation may temporarily deviate from the target and even run outside the band for deviations from the target. The response of monetary policy to the shocks is flexible and depends on their causes and the assessment of persistence of their effects, including their impact on inflation developments.

The majority of the Council members judged that if the uncertainty about the further course of the pandemic, and – as a result – the future economic conditions continued, and if the rise in inflation above the target was the result of factors beyond the control of monetary policy, it would be advisable to keep interest rates unchanged also in the near future. 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 economic recovery following a considerable economic downturn caused by the pandemic.

Some Council members judged that future incoming data and forecasts, including the July NBP projection, would be helpful in assessing the robustness of the economic recovery and the outlook for inflation. These Council members judged that if forecasts indicated robust economic growth in the coming years, with inflation remaining permanently above the NBP inflation target due to increased demand and persistently favourable situation in the labour market, amid fading uncertainty about pandemic it would be possible to adjust monetary policy.

However, certain Council members were of the opinion that the NBP reference rate should be raised at the current meeting. They assessed that inflation would remain above 3.5% in the following four quarters. In the opinion of these Council members, the increase in the reference rate could reduce the risk of an increase in inflation expectations and strengthening of wage pressure and thus it would mitigate the risk of inflation running above the NBP inflation target in the medium term.

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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