Minutes of the Monetary Policy Council decision-making meeting held on 8 June 2022

During the discussion at the Council meeting, the situation in the external environment of the Polish economy was assessed. It was observed that growth in global economic activity was slowing down. It was pointed out that recent months had seen a marked deterioration in economic conditions in some emerging economies, including in China, while relatively favourable economic conditions persisted in the largest developed economies. The Council members highlighted that global economic activity continued to be curbed by high prices of commodities and components used in production, persisting global supply chain disruptions and the consequences of the Russian military aggression against Ukraine.

It was pointed out that in 2022 Q1 the euro area had recorded moderate GDP growth, which resulted, on the one hand, from the gradual easing of the pandemic restrictions imposed in the euro area economy and, on the other hand, from the persisting supply chain disruptions, which had intensified in recent months due to the war in Ukraine and the zero-covid policy in China. At the same time, the situation in the euro area labour market continued to improve, with the unemployment rate declining to a very low level. The labour market situation remained favourable also in the United States, which translated into accelerating wage growth. It was pointed out that despite a decline in GDP in 2022 Q1, growth in private consumption and investment in the US economy was positive, and April had seen both retail sales and industrial output pick up.

The Council members drew attention to a further rise in inflation worldwide, which in some countries reached the highest levels for decades. In particular, it was indicated that in May 2022 the euro area had seen HICP inflation rise to 8.1% (with some euro area economies recording double-digit inflation). In the United States inflation continued to run at a historically high level, although CPI inflation had declined slightly in April.

It was emphasised that high commodity prices, prolonged disruptions in global supply chains and international transport, exacerbated by the effects of the war, remained the main source of rising inflation. In this context, some Council members drew attention to the European partial embargo imposed on Russian oil, which affected oil prices, and the decision of the OPEC countries to increase oil supply, which – in turn – should ease somewhat the tensions in the oil market. It was stressed that the price of oil had increased by more than 50% over the year, and by almost 200% over the past two years. European

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prices of coal and gas were also several times higher. Moreover, it was emphasised that the shock in energy commodity prices and the war in Ukraine had resulted in a sharp rise also in agricultural commodity prices.

It was noted that in many economies a relatively high aggregate demand, financed partly with savings accumulated during the pandemic and partly with growing income, amidst a very good labour market situation, supported the transmission of supply shocks to inflation. It was emphasised that as a result, core inflation was also on the rise. At the same time, inflation forecasts for the coming quarters were significantly revised upwards.

At the meeting it was pointed out that amid a strong rise in inflation, many central banks were tightening their monetary policy. In particular, the US Federal Reserve had ended its net asset purchases and was continuing its interest rate hikes. On the other hand, the ECB had so far kept negative interest rates, yet had reduced the scale of its asset purchases. Central banks in many economies, including in Central and Eastern Europe, had continued to increase interest rates.

While analysing the situation in the Polish economy, the Council members pointed out that according to the Statistics Poland preliminary estimate, in 2022 Q1 GDP growth amounted to 8.5% y/y. However, the data on its structure indicated that the rise in inventories had a large contribution to GDP growth, whereas consumption and investment growth had declined. It was assessed that the large growth in inventories was likely the result of companies accumulating raw materials and semi-products due to the uncertainty about their future prices and serious disruptions in supply chains.

The Council members emphasised that data available for 2022 Q2 suggested continuation of favourable economic conditions, although the pace of economic activity was gradually declining. Attention was drawn, in particular, to the fact that in April growth in industrial output had slowed down somewhat, and that in May the PMI index for industry had fallen below the level of 50 points. Data for construction were also markedly worse, with a significant slowdown in the growth of construction and assembly production. At the same time, April saw a significant growth in retail sales which was, on the one hand, the result of the inflow of refugees and the pandemic-related base effects and, on the other hand, the result of the constantly rising household income. It was emphasised that the situation in the domestic labour market continued to be very good, which was confirmed by the LFS data for 2022 Q1 and the incoming monthly data. In April employment continued to rise, accompanied by a further fall in unemployment and a marked rise in wages.

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The Council members assessed that the outlook for the Polish economy in the coming quarters was still relatively favourable, although a slowdown in economic growth was anticipated. At the same time, it was noted that forecasts of the macroeconomic situation both in Poland and worldwide are fraught with high uncertainty. It was pointed out that the pace of economic growth would still be negatively affected by growing prices of commodities and certain products, resulting in a rise in enterprises' costs and limiting the growth in real disposable income of households. Economic activity would also be curbed by the forecast slowdown in global economic growth. It was emphasised that a more in-depth analysis of the medium-term scenario for the Polish economy would be possible in July, after the projection of inflation and GDP is published.

It was pointed out at the meeting that in May 2022 inflation in Poland had risen to 13.9% y/y. It was emphasised that heightened inflation in Poland – as in other countries – was mainly driven by a sharp rise in global prices of energy and agricultural commodities which was largely the result of the Russian military aggression against Ukraine. Other global factors affecting consumer prices were supply chain disruptions and high costs of international transport. Another factor boosting inflation in Poland was the earlier increases in regulated domestic tariffs on electricity, natural gas and thermal energy. Consequently – as pointed out by the Council members – in May the annual growth of energy prices reached 33% and that of food prices exceeded 13%. At the same time, price growth was supported by high demand, which facilitates enterprises to pass growing costs to prices of final products, resulting also in higher core inflation. On the other hand, inflation was mitigated by the reduction in some tax rates under the Anti-Inflation Shield.

With regard to the outlook for inflation in Poland, the Council members stressed that in the coming quarters inflation would remain markedly elevated due to the further impact of the factors currently boosting price growth, including those related to the Russian military aggression against Ukraine. It was emphasised that high uncertainty regarding future inflation prevailed, among others, due to uncertainty concerning changes in commodity prices, the impact of war in Ukraine on the global and domestic economic conditions, as well as due to regulatory changes affecting prices, including the decision on solutions provided for in the Anti-Inflation Shield. At the same time, the Council members pointed out that the NBP interest rates increases, together with fading of the impact of shocks currently boosting prices would contribute to a gradual fall in inflation in the coming years. The decrease in inflation should also be supported by appreciation of zloty exchange rate, which, in the Council's assessment, would be consistent with the

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fundamentals of the Polish economy. However, certain Council members pointed out that expected more expansionary fiscal policy would have pro-inflationary effects.

Certain Council members also pointed out that the government measures aimed at shielding mortgage borrowers, i.a. by introduction of the so-called repayment holidays, would hinder the efforts to permanently lower inflation. At the same time, they indicated that the planned changes in reference rates could, depending on the adopted solutions, weaken the monetary transmission mechanism.

In context of the discussion on macroeconomic conditions, the Council members assessed that there remained 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 6.00% and set the remaining NBP interest rates at the following levels: the lombard rate at 6.50%, the deposit rate at 5.50%, the rediscount rate at 6.05%, and the discount rate at 6.10%.

The Council members pointed out that 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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