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

At the Council meeting it was pointed out that June had seen a reduction in the scale of the pandemic globally and the number of new infections was less than half the spring figure. As a result, the sanitary restrictions were being gradually eased in many countries. At the same time, it was observed that the spread of new mutations of the virus had caused increased uncertainty about the further course of the pandemic. This uncertainty was boosted by the still relatively low vaccination rate in many countries and the lower effectiveness of vaccinations against the new variants of the virus. It was pointed out that in some countries – even those with a high number of vaccinated people – the number of infections with the new variant of the virus was increasing, which was contributing to the reintroduction of certain restrictions.

The gradual easing of sanitary restrictions in many economies supported a marked rebound of global economic activity following the earlier deep recession. It was pointed out that the improvement in business conditions in services in many countries was accompanied by further growth in industrial sector activity alongside the occurrence of supply restrictions in certain markets.

It was observed that in the euro area 2021 Q2 had brought an increase in industrial activity and also a rebound in turnover in trade and services after a fall in GDP in 2021 Q1. The majority of the Council members underlined that the high growth in industrial and construction and assembly output, as well as in retail sales in this economy, was to a large extent the result of the low base effect. They drew attention to the fact that economic activity in the euro area remained lower than before the pandemic and that the available forecasts suggested that a full recovery in GDP would not take place until 2022. The opinion was expressed that it would not be possible to declare the negative effects of the pandemic completely eliminated until the macroeconomic indicators had returned permanently to the level determined by the pre-pandemic trend.

When referring to the global economic outlook, it was judged that the further development of the pandemic represented a risk factor for the sustainability of the currently observed recovery in global economic activity. It was pointed out that although successive waves of the pandemic had had a smaller impact on the economic situation, any new increase in the number of infections could slow down the economic recovery, particularly if the new wave was accompanied by a deterioration in consumer and business sentiment.

It was judged that the global recovery was contributing to an increase in commodity prices in the global markets, including oil prices, which were significantly higher than a year earlier. Certain Council members expressed the opinion that in view of the expected further increase in demand for oil, the price of this commodity would most likely continue to rise. However, the majority of the Council members were of the opinion that even in the face of growing demand, growth in oil prices should slow down.

High commodity prices alongside with rising costs of international transport and the price effects of constraints in the supply of certain intermediate goods would boost inflation in the global economy, including in the developed economies. Some Council members underlined that global inflation had risen by approximately 2 percentage points between January and May, to reach its highest level in a decade. These Council members observed that inflation in the United States had also risen sharply since the beginning of the year.

During the discussion it was pointed out that despite the significant increase in inflation, the major central banks were keeping interest rates low, conducting asset purchases as well as signalling that loose monetary policy would be maintained in the future. It was also observed that such measures were justified by the temporary character of the factors currently boosting inflation, and the persistence of uncertainty about the future economic outlook. It was pointed out that the majority of financial market participants also judged the higher level of price growth to be temporary, as evidenced by the decline in long-term inflation expectations and bond yields in the largest developed economies. Certain Council members drew attention to the fact that at its June meeting the Federal Reserve of the United States had raised its interest rate on excess reserve balances by 0.05 percentage points to 0.15% in order to increase the effectiveness of the monetary policy implementation. At the same time, the majority of the Council members underlined that this decision was of a technical nature. They also observed that it did not represent a change in the monetary policy stance.

Certain Council members pointed out that in response to heightened inflation, some central banks in the region of Central and Eastern Europe, i.e. the central banks of the Czech Republic and Hungary, had recently raised interest rates. However, the majority of the Council members pointed out that such decisions were partly dictated by factors specific to these economies and a different assessment of the economic outlook and course of future price developments.

When assessing the situation in Poland, the Council members pointed out that recent months had seen a marked recovery in economic activity. Retail sales had risen significantly in May, accompanied by a slight rise in construction and assembly output and the continued good situation in industry. Certain Council members expressed the opinion that these data, along with the good export performance, indicated a very favourable situation in the Polish economy. However, the majority of the Council members noted that the high levels of annual economic indicators were the combined effect of three factors – the rebound in economic activity following the easing of the sanitary restrictions, the realisation of pent-up demand, and the effect of a low base a year ago – and should be interpreted with caution. These Council members underlined that while industrial output had already exceeded its pre-pandemic level, construction and assembly output remained significantly lower.

While analysing the labour market situation, the Council members underlined that it remained good. They pointed out that in May, along with the easing of the restrictions, average employment in the enterprise sector had increased. It was judged that the smaller use of care and sickness benefits, the return of working hours to pre-pandemic levels, and also the rising number of employees hired in the sectors most affected by the pandemic restrictions contributed to this growth in employment. Certain Council members pointed out that growth in demand for labour was accompanied by wage pressure reflected in relatively high wage growth in the enterprise sector. In turn, the majority of the Council members expressed the opinion that the labour market situation was not generating excessive wage pressure, and that wage growth in the enterprise sector – after adjustment for the low base effect – remained lower than before the pandemic. Moreover, these Council members observed that wage growth did not exceed labour productivity growth and as a result annual growth in unit labour costs in industry was negative.

The Council members underlined that NBP's July projection indicated a very favourable domestic economic outlook. The majority of the Council members were of the opinion that the economic developments in the coming quarters were subject to considerable uncertainty, primarily related to the future course of the pandemic. These Council members observed that it could not be ruled out that a possible new increase in the number of infections and the consequent reintroduction of restrictions would translate into a weakening of economic growth. The majority of the Council members also pointed out that the positive impact of pent-up demand on consumption observed so far might be short-lived and that growth in consumer spending might slow down later in the year. These Council members also underlined that in a situation in which the rebound in economic activity was weakening, the labour market situation might begin to deteriorate, particularly in view of the termination of assistance from the anti-crisis shields. In turn, certain Council members judged that continued high GDP growth which was forecast for the coming quarters was highly likely, taking into account the very good situation in industry, the rapid growth in exports, and the significant household savings. These Council members expressed the opinion that in view of the significant number of people vaccinated and the progressive adaptation of economic entities to operating amid a pandemic, any further waves of infections would not represent a significant risk factor for rapid economic growth.

At the Council meeting it was pointed out that according to the GUS preliminary data, June saw a fall in annual CPI to 4.4% (in monthly terms CPI stood at 0.1%). At the same time, according to preliminary estimates, core inflation excluding food and energy prices declined to its lowest level for over a year. The majority of Council members underlined that the annual CPI inflation rate continued to be boosted by rapid growth in fuel prices – due to significantly higher global oil prices than a year earlier – the increase in electricity prices, which took place at the beginning of 2021, and the increase in waste disposal charges, and thus by factors which were beyond the control of domestic monetary policy. They observed that inflation was also driven up by the higher costs of running a business amidst the pandemic, higher international transport charges and temporary disruptions in global supply chains. In this context, these Council members drew attention to the fact that according to the full data for May, the increase in fuel prices and of in administered prices accounted for over half of the CPI inflation rate. As a result, the majority of the Council members judged that demand factors were not causing excessive price growth and not causing inflation to exceed the inflation target.

In turn, certain Council members drew attention to the fact that demand factors accounted for almost half of the observed growth in the prices of consumer goods. Moreover, they underlined that the persistence of elevated inflation might lead to an increase in inflation expectations. The majority of the Council members observed that balance statistics describing consumers' inflation expectations had recently shifted towards lower price growth.

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. These Council members were of the opinion that, as indicated by NBP's July projection, in 2022, following the fading of the factors temporarily boosting price growth, inflation would decline. t the same time, these Council members pointed out that the scale of the decline in inflation would depend on the development of the future economic situation, while even amid a very positive economic scenario as outlined in the projection, inflation would return to the band of deviations from the inflation target. The majority of the Council members drew attention to the fact that in accordance with the projection, over the whole of its horizon price growth would remain significantly lower than wage growth, including growth in the minimum wage, which would translate into a marked improvement in the financial situation of households and would limit the build-up of wage pressure.

Certain Council members underlined that the July projection pointed to a higher inflation path in 2022 than the previous projection and showed only a temporary decline in price growth in 2022 and another increase in 2023. These Council members were of the opinion that with the continued favourable economic situation and in view of the gradual realisation of pent-up demand, in the coming quarters demand pressure would build up. In the opinion of these Council members, this might lead to inflation running at an elevated level in 2022 as well.

The majority of the Council members were of the opinion that lending growth was not contributing to inflation rising above NBP's inflation target. It was also observed that the rate of growth in deposits of the non-financial sector remained higher than the growth of liabilities of this sector.

The majority of 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 sources and the expected temporary nature of inflation exceeding NBP's target, as well as the uncertainty about the robustness and scale of the economic recovery.

The majority of 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 if, after the uncertainty about the pandemic situation and the economic outlook had subsided, robust economic growth continued and inflation, driven by demand factors, exceeded NBP's inflation target, it might be advisable to adjust monetary policy.

Certain Council members were of the opinion that the NBP reference rate should be raised at the current meeting. They drew attention to the fact that price growth was currently elevated and that demand factors were also boosting prices. They also judged that heightened inflation expectations and wage pressure might lead to the consolidation of inflation above NBP's target. They underlined that according to July projection inflation would stay above 2,5% over the whole forecast horizon and in some quarters would exceed to upper limit of deviations from the target. In the opinion of these Council members, an increase in the reference rate could reduce such a risk and support the development of inflation at a level consistent with NBP's inflation target.

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

The Council rejected the motion to increase the required reserve ratio to 3.5% and the motion to lower the interest rate on required reserves from the level of the NBP reference rate (currently 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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