Minutes of the Monetary Policy Council decision-making meeting held on 7 July 2022

At the meeting it was pointed out that in 2022 Q2 labour market situation in the largest advanced economies remained very good, therefore the economic conditions in these economies were assessed to be relatively favourable. At the same time, it was stressed that in some of the emerging market economies, including China, the pace of economic activity growth had declined markedly, which had also had an adverse impact on export growth in the advanced economies. The Council members also drew attention to the fact that signs of a marked worsening of the global growth outlook had intensified recently, which was reflected in deteriorating sentiment of economic entities. It was pointed out that activity in the global economy and its outlook were under the negative impact of high prices of commodities and production components, persisting disruptions in the functioning of global supply chains and the repercussions of Russian military aggression against Ukraine, including high uncertainty. The tightening of monetary policy by the major central banks would also curb growth in economic activity. It was underlined that the available forecasts, both by external institutions and by NBP, indicated a significant deterioration of the global economic conditions. In particular, attention was drawn to the expected decline in annual GDP growth in the United States and – on a much larger scale – in the euro area. At the same time, it was emphasised that in the euro area there was a risk of a sharper than currently forecast slowdown in GDP growth, should the supply of gas from Russia be cut off entirely. Certain Council members also pointed out the risks for economic activity resulting from the next wave of the COVID-19 pandemic in Europe.

The Council members noted that in the recent months global inflation had continued to rise, reaching the highest levels in decades in many economies. During the discussion attention was drawn to the fact that – according to preliminary Eurostat data – in the euro area inflation stood at 8.6% in June, and it substantially varied across countries. It was pointed out that in many euro area countries annual price growth was in double digits, and in the Baltic countries it had reached approximately 20%. In turn, in the United States CPI inflation had risen to 8.6% in May. High commodity prices as well as the persisting disruptions in global supply chains and international transport, exacerbated by the effects of war, continued to be the main source of price growth around the world. The Council members drew attention to the fact that the situation in

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the commodity markets remained unfavourable, although recently it had become more diverse. In particular, the situation in the gas market had deteriorated amid the reports of reduced gas supply from Russia to more European countries, including Germany and Italy. It was stressed that the constrained supply of gas was boosting its price, which in the European market was approximately three times higher than a year ago and seven times higher than before the pandemic. On the other hand, the price of Brent oil had decreased in the recent period due to concerns about a global downturn, although it was still approximately 40% higher than a year ago and approximately 60% higher than before the pandemic. It was underlined that in some economies high growth in demand and rising labour costs, which translated into growth in core inflation, were also boosting prices. At the same time, it was pointed out that in many economies inflation forecasts for the coming quarters continued to be revised upwards, although it was highlighted that the expected global economic slowdown should curb inflation.

During the discussion it was noted that in view of the high current and forecast inflation, many central banks had been tightening their monetary policy in the recent period. In June, the Federal Reserve of the United States once again raised its interest rates. In turn, the ECB concluded net asset purchases. Central banks in many economies, including in the Central-Eastern Europe region, continued to increase interest rates.

While analysing the situation in the Polish economy, the Council members judged that the economic conditions in 2022 Q2 remained favourable, however, economic activity growth decelerated. Attention was drawn to the fact that although data on industrial output and retail sales in May indicated further relatively rapid growth in activity in annual terms, these figures were worse than expected by market analysts. It was also pointed out that total retail sales growth had been boosted by the high growth in sales of non-durable goods – supported by the demand generated by the refugees from Ukraine – while demand for durable goods had weakened. Meanwhile, incoming data indicated that conditions in the construction sector have deteriorated. The Council members also underlined that sentiment indicators, including the current consumer confidence indicator and the PMI index, had declined.

The Council members drew attention to the fact that the unemployment rate in Poland remained at a historically low level. This was accompanied by a significant rise in wages, although annual wage growth in the enterprise sector slowed down in May to 13.5%. At the same time, it was pointed out that growth of average employment in this sector had

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halted in May in monthly terms which, along with the growing labour force participation of refugees from Ukraine, was probably limiting wage pressure.

During the discussion on the economic activity outlook, attention was drawn to the fact that according to the projection, average annual GDP growth in 2022 would remain relatively high. However, it was underlined that this was mainly due to the strong growth in activity in 2022 Q1, while the second half of 2022 would most likely see a significant slowdown in GDP growth. At the same time, it was emphasised that according to the central path of the projection, in the second half of 2023 annual GDP growth would begin to gradually accelerate, although it would remain lower than in previous years. It was also pointed out that in line with the projection, the deteriorating economic conditions might lead to a slight rise in unemployment in the coming years, which would curb wage growth. Certain Council members pointed out that – in their opinion – despite the expected deterioration of the economic conditions, a rise in unemployment was unlikely. At the same time, it was underlined that both the domestic and global economic outlook were subject to significant uncertainty.

At the meeting it was noted that according to the Statistics Poland flash estimate, inflation in Poland had increased in June 2022 to 15.6% y/y. At the same time, the Council members underlined that high inflation resulted mainly from an earlier strong rise in global energy and agricultural commodities prices – driven, to a large extent, by the repercussions of the Russian military aggression against Ukraine – and the earlier increases in regulated tariffs on electricity, natural gas and thermal energy. It was emphasised that consequences of disruptions in global supply chains and high shipping costs in international trade also boosted inflation. During the discussion it was also pointed out that price growth in Poland was supported by the continued robust demand, enabling enterprises to pass rising costs onto the final prices, which is accompanied by a rise in core inflation. However, attention was drawn to the fact that core inflation – apart from the influence of demand factors – reflected also the indirect impact of factors independent of the domestic economic conditions, which were boosting the production costs and prices of many goods. At the same time, it was pointed out that a curbing impact on inflation had been exerted by a reduction in some tax rates as part of the Anti-inflationary Shield.

During the discussion on the outlook for inflation in Poland, it was pointed out that according to NBP’s July projection, in the coming quarters inflation would remain high due to the continued impact of the factors currently boosting price growth, including those related to the Russian military aggression against Ukraine. Attention was also drawn to the risk of significant increases in regulated tariffs for electricity and natural gas at the beginning of 2023. The impact of unfavourable weather conditions and cost factors in agriculture, which exert upward pressure on food prices, was also highlighted. At the same time, it was underlined that the coming years would see a gradual decline in inflation towards the NBP target, which would be supported by the expected weakening of economic conditions, along with the fading of the impact of the shocks that were currently boosting prices as well as the NBP interest rate hikes implemented so far, which, among others, had been curbing credit growth. The decrease in inflation would also be supported by appreciation of zloty exchange rate, which, in the Council's assessment, would be consistent with the fundamentals of the Polish economy. Certain Council members judged that the disinflation process might proceed slower than indicated in the projection, due to, among others, the possible fiscal policy easing.

In the context of the projection, the Council members underlined that there were significant uncertainty factors regarding inflation outlook, such as the future course of the war in Ukraine, the developments in the global commodity markets, and also the scale of the global and domestic economic slowdown and its impact on price growth. Moreover, it was emphasised that the validity period of the lower tax rates under the Anti-Inflation Shield was also an uncertainty factor for the price growth in Poland.

The Council members judged 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 target in the medium term, NBP interest rates should be raised again. 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 0.50 percentage points, i.e. to 6.50% and set the remaining NBP interest rates at the following levels: the lombard rate at 7.00%, the deposit rate at 6.00%, the rediscount rate at 6.55%, and the discount rate at 6.60%.

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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