Minutes of the Monetary Policy Council decision-making meeting held on 6 October 2021

At the Council meeting it was pointed out that the recovery in global economic activity was continuing, although in some economies it had probably slowed down somewhat in 2021 Q3. It was underlined that so far global industry had been relatively resistant to the effects of the supply-side disruptions, although in some countries the lack of sub-components was translating into a deterioration in sentiment in that sector. Attention was also drawn to the positive signals regarding economic activity in the euro area. In particular, despite the growth in the number of COVID-19 infections, business conditions in the services sector in the euro area remained relatively favourable. At the same time, it was underlined that despite supply-side disruptions, a good situation also continued in the euro area industry, where output had exceeded the pre-pandemic level.

It was also pointed out that global commodity prices had significantly risen in the recent period and were substantially higher than a year earlier. Attention was drawn to the fact that following some stabilisation, oil prices had once again begun to increase in recent weeks. Moreover, in the recent period natural gas prices had risen sharply in Europe, reaching a level several times higher than a year earlier. Prices of CO_2 emission allowances also continued to rise. It was pointed out that, as a result, electricity prices had also increased in Europe. It was also underlined that in recent months the global prices of some agricultural commodities, in particular wheat, had also risen. It was pointed out that in many economies, commodity price growth – along with the supply-side constraints in certain markets and sharp increase in international transport prices – had led to a significant rise in both PPI and CPI inflation in recent months. At the same time, it was judged that the impact of these factors on global inflation might last longer than had been hitherto thought.

It was underlined that despite the rise in inflation, the major central banks were keeping interest rates low and conducting asset purchases. At the same time, it was pointed out that these banks had somewhat modified their communication and were currently indicating that the heightened level of inflation might persist longer than had previously been thought. Therefore, the expected horizon for maintaining highly expansionary monetary policy by these banks had been shortened. In September, the European Central Bank announced a slight reduction in the pace of purchases under the pandemic emergency purchase programme, and the Federal Reserve signalled that it would begin

Narodowy Bank Polski ul. Świętokrzyska 11/21 00-919 Warszawa, Poland phone +48 22 185 28 88 sekretariat.rpp@nbp.pl

NARODOWY BANK POLSKI

tapering its net asset purchases already this year. At the same time, it was pointed out that central banks in Central and Eastern Europe and in certain developed economies had raised interest rates in the recent period.

When assessing the situation in the Polish economy, the Council members drew attention to the ongoing recovery in economic activity. It was underlined that in August industrial output growth had accelerated, exceeding the level determined by the pre-pandemic trend. Attention was also drawn to the acceleration in retail sales growth as well as construction and assembly output in August. The Council members judged that in 2021 Q3, GDP growth was most likely higher than that indicated by the NBP July projection. It was also underlined that the economic recovery – along with the effects of the disbursement of funds under the anti-crisis shields – was having a very favourable impact on the financial situation of enterprises, which in many sectors had reported record profits. At the same time, it was pointed out that despite continued good economic conditions, in the recent period business sentiment in the industrial sector had deteriorated somewhat, which was related to the supply-side constraints occurring in certain markets. Certain Council members also pointed out that the current account balance had recently decreased to a negative level.

At the same time, it was judged that in the coming quarters the favourable economic situation was likely to continue. Although the autumn wave of the epidemic continued to be an uncertainty factor, its impact on the economy should be limited due to the effects of the vaccinations and the adaptation of many firms and households to operating in epidemic conditions. It was also pointed out that an additional factor of uncertainty for the economic outlook in Poland was the impact of rising commodity prices on the global economic conditions.

It was also pointed out that although average employment in the enterprise sector was still slightly lower than before the pandemic, the labour market situation was improving. The good situation of employees on the labour market was evidenced by unemployment staying low despite the gradual winding down of the programmes subsidising wages under the anti-crisis shields. It was underlined that this favourable situation was also reflected in solid wage growth in the enterprise sector. It was also pointed out that nominal wages were growing much faster than prices, and at the same time they were accompanied by fast growth in labour productivity. The majority of the Council members judged that wage growth was being driven mainly by the growth in productivity, and that inflation was not generating excessive wage pressure. In turn, in the opinion of certain Council members, heightened inflation might increase wage demands of various occupational groups, translating into growing wage pressures in the coming quarters.

At the meeting it was pointed out that according to the Statistics Poland flash estimate, inflation in Poland rose to 5.8% y/y in September 2021, and stood at 0.6% in monthly terms. The majority of the Council members underlined that heightened inflation was mainly the result of the impact of factors beyond the control of domestic monetary policy, including higher global prices of energy and agricultural commodities than a year earlier, previous hikes in electricity prices and waste disposal charges, as well as global disruptions in transport and the functioning of supply chains. At the same time, it was pointed out that the ongoing economic recovery, including rising household income, had also added to the price growth. In the opinion of the majority of the Council members, demand-side factors alone were not causing an excessive increase in price growth. Certain Council members did not share this opinion, instead pointing to the growing core inflation indicators. Certain Council members also pointed to the higher level of inflation expectations than in previous years. They also underlined the importance of exchange rate channel in the monetary transmission mechanism.

The Council members judged that although some supply-side factors currently fuelling inflation would fade in 2022, the growth in commodity prices observed in recent months, including the prices of energy and agricultural commodities, might continue to boost price growth in the coming quarters. In particular, attention was drawn to the likely significant increases in electricity and gas prices for households and enterprises, alongside the higher path of food prices than expected earlier. It was also underlined that the global shocks had contributed to high growth in producer prices, which might translate into further increases in prices of consumer goods, particularly amid continued growth in consumer income. In this context, it was concluded that amidst probable further recovery in economic activity and favourable labour market conditions, inflation might persist at an elevated level longer than hitherto expected. In particular, it was judged that with the continued favourable economic situation, inflation – despite some decline expected in 2022 – would most likely run above the NBP July projection in the coming quarters and that in this horizon it would not return by itself to the band for deviations from the NBP inflation target. It was assessed that such a situation would generate a risk of price growth remaining above the inflation target in the medium term. The Council members recognised that, in order to decrease inflation to the NBP target in the medium term, NBP interest rates should be raised. Therefore, the Council passed the motion to raise the reference rate by 0.4 percentage points, i.e. to 0.50% and set the remaining NBP interest rates at the following levels: the lombard rate at 1.00%, the deposit rate at 0.00%, the rediscount rate at 0.51%, and the discount rate at 0.52%. At the same time, the Council decided to increase the required reserve ratio from 0.5% to 2.0%.

The Council members underlined that the interest rate increase would reduce the risk of inflation remaining elevated in the medium term. They also underlined that, due to the external causes of the heightened inflation, in the short term inflation would continue to be elevated. At the same time, the Council members stated that future monetary policy decisions would depend on the assessment of incoming information on the economic situation, including the outlook for economic conditions and for inflation. The Council members also judged that monetary policy decisions must support a return of inflation to the target in the medium term, yet they should also aim to consolidate the economic recovery and create the conditions for further sustainable growth of the Polish economy.

Publication date: 21 October 2021