Minutes of the Monetary Policy Council decision making meeting held on 3 November 2021

At the Council meeting, it was observed that the recovery in global economic activity was continuing. It was emphasised that owing to further activity growth, many economies had already made up for the pandemic-induced losses. It was observed that preliminary GDP data for 2021 Q3 pointed to continued favourable economic conditions in the United States as well as the euro area, where economic growth was markedly above the forecasts. It was stressed that the economic situation in the euro area remained good despite the adverse effect of supply-side disruptions on the economic climate in industry, and was supported by the substantial activity rebound in the service sector. It was underlined that current forecasts pointed to further global activity growth in 2022. At the same time, the risk of global GDP growth below the current forecasts was deemed to prevail. In this context, it was pointed out that the difficult epidemiological situation persisting in many countries, along with the supply constraints in some markets and a sharp rise in commodity prices, were having a downward effect on activity in some economies. The slowdown in GDP growth in China in 2021 Q3, driven by pandemic disruptions and the economic policy pursued by Chinese authorities, was also highlighted.

It was observed that commodity prices in the global markets continued to be substantially higher than a year ago. It was indicated that gas prices, despite a recent correction, were still several times higher than in the autumn of 2020. Oil and coal also continued to be more expensive. Certain Council members were of the opinion that the rise in energy commodity prices was driven by both demand factors – such as the ongoing recovery in the global economy after the pandemic crisis – and supply constraints due to the oil production policy of OPEC+ and Russia's gas export policy. It was observed that another factor boosting energy prices in Europe was the sharp rise in the prices of CO2 emission allowances. Food price growth, driven up by rising global prices of some agricultural commodities, was also highlighted.

It was emphasised that these factors, together with disruptions in global supply chains and a steep rise in international transport costs, were contributing to a substantial rise in inflation in many countries. It was pointed out that price growth in many countries, including the United States and the euro area, was well above the central banks' inflation targets, running at highest levels in decades. It was also observed that according to forecasts, global price growth would also remain elevated in 2022, a development which in the summer 2021 had not yet been anticipated.

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It was emphasised that despite rising inflation, major central banks were keeping interest rates low and were conducting asset purchases. At the same time, given the growing risk of higher inflation lasting longer than previously forecast, some of those banks were signalling a reduction in the scale of monetary accommodation. In particular, the Federal Reserve was hinting at embarking on a gradual reduction in the scale of net asset purchases later this year. At the same time, it was underscored that central banks in Central and Eastern Europe, as well as in some advanced economies, were already raising interest rates.

While analysing the situation in the Polish economy, Council members drew attention to the ongoing economic recovery. Incoming data and estimates suggest that the relatively rapid economic growth, exceeding 5%, had continued in 2021 Q3. GDP growth was supported by robust consumer demand, benefiting from a favourable situation in the labour market, which was reflected in a decline in unemployment and a substantial rise in average wages. Favourable situation also continued in the industry, despite the negative impact of limited supply of some intermediate goods on activity in some branches.

It was judged that the favourable economic situation would probably continue also in the coming quarters. It was observed that the findings of the November NBP projection also suggested such a scenario. At the same time, it was indicated that the main factors of uncertainty about the economic outlook were factors likely to have a negative impact on economic activity, including the effects of the pandemic, as well as the impact of supply constraints and high prices of energy commodities on the global economic climate.

At the meeting it was pointed out that according to the Statistics Poland flash estimate, inflation in Poland had risen to 6.8% y/y in October 2021, and stood at 1.0% in monthly terms. The majority of Council members underlined that heightened inflation was still mainly the result of the impact of external factors beyond the influence of domestic monetary policy, including much 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 transport and supply chain disruptions. At the same time, these Council members judged that the ongoing economic recovery, including demand stimulated by rising household income, had also added to the price growth. Certain Council members pointed out that this was reflected in an elevated level of core inflation. These Council members also drew attention to the higher level of inflation expectations than in previous years, in particular, the expectations of enterprises. They also underlined the importance of the exchange rate channel in the monetary transmission mechanism.

When analysing the inflation outlook, the Council members pointed out that the significant increase in global commodity prices observed in 2021 and the prolonged global supply disruptions had caused a significant increase in inflation forecasts for the coming quarters both globally and in Poland. The Council members judged that with the expected further recovery in domestic economic activity and the favourable labour market situation, this would create a risk of elevated inflation becoming entrenched over the monetary policy horizon. Such a risk was also indicated by the results of NBP's November projection, according to which, without a further adjustment of monetary policy, price growth could run above the NBP inflation target even after the fading of the impact of current pandemic-commodity shock. Certain Council members expressed the opinion that the risk of elevated price growth becoming entrenched might also be increased by the weakening of structural factors, such as globalisation and changes in retail market structure, which in previous years had reduced price growth in Poland.

When referring to the situation in the credit market, certain Council members underlined that the rise in the value of corporate and consumer loans remained limited. However, other Council members pointed to the high growth in mortgage loans.

The Council members recognised that, in order to lower inflation to the NBP target in the medium term, NBP interest rates should be raised. Therefore, the Council decided to raise the reference rate by 0.75 percentage points, i.e. to 1.25% and to set the remaining NBP interest rates at the following levels: the lombard rate at 1.75%, the deposit rate at 0.75%, the rediscount rate at 1.30%, and the discount rate at 1.35%.

The Council members pointed out that, due to the external causes of the elevated inflation, including growth in fuel prices, and the further forecasted increases in electricity prices– in the near future inflation would continue to significantly exceed the inflation target. At the same time, they emphasised that the interest rate increases in October and November would reduce the risk of elevated inflation becoming entrenched in the medium term and would have a limiting impact on inflation expectations. The Council members stated that further monetary policy decisions would depend on the assessment of incoming information on the economic situation, including the outlook for inflation and for economic activity.

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