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

At the Council meeting, it was observed that the global economy was continuing to recover. In Q3 2021 GDP growth in the euro area had accelerated in quarterly terms, while latest data showed a decrease in unemployment to the levels observed before the pandemic. In the United States quarterly GDP growth in Q3 had slowed down, whereas in October growth in employment had accelerated which amidst a further improvement in the labour market situation led to increased wage dynamics. It was judged that while rising demand constituted a factor supporting global GDP growth, economic activity was under the negative impact of persisting supply-side constraints in some markets as well as high commodity prices. At the same time, in certain economies, including the euro area, re-escalation of the pandemic and tightening of pandemic restrictions were important risk factors, yet it was not obvious how dangerous the new variant of the coronavirus – Omicron – would be. The Council members observed, however, that recent experience pointed to diminishing impact of consecutive pandemic waves on economic conditions, and that according to current forecasts global GDP growth in 2022 would remain relatively robust, though lower than in 2021.

It was noted that commodity prices in the global markets continued to be substantially higher than a year ago, which applied especially to natural gas, oil and coal, as well as to some agricultural commodities. It was highlighted that despite some decrease in oil prices amid deterioration of sentiment in the financial markets and a rise in risk aversion after the first news on Omicron, average oil price in November was over 80 per cent higher than a year ago, coal was over two-and-a-half times more expensive, and natural gas over five times more expensive. Some Council members emphasised that an increase in energy commodity prices was caused, on the one hand, by demand factors, and, on the other hand, by the OPEC+ policy concerning the volume of oil production and by the Russia's policy concerning gas exports. At the same time, in Europe, apart from the rapid and very strong increase in gas prices, another factor boosting energy prices was a very sharp rise in prices of CO_2 emission allowances related to the climate policy of the EU.

The Council members underlined that high commodity prices together with prolonged disruptions in the functioning of global supply chains and still high international shipping costs, contributed to a marked rise in inflation globally, which was supported also by further recovery in demand. As a result, in many economies, including the euro area and the United States, inflation was reaching highest levels in decades. It was also stressed that

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core inflation was increasing as well, while inflation forecasts for the coming quarters were revised up, which pointed to the risk of longer than previously judged impact of the pandemic shock on inflationary processes, which in Europe was additionally exacerbated by strong negative effects of Russia's supply policy in the gas market. It was underscored that also very high PPI indicators were a sign of the global nature of the current inflation increase. In this regard, it was highlighted that, in particular, PPI inflation in the euro area in October stood at close to 22%. Moreover, it was pointed out that in 20 EU countries PPI inflation was higher than in Poland, including in Ireland where it was nearly 90%, in Denmark where it was close to 40% and in Belgium and Spain where it was above 30%.

It was indicated that globally rising inflation made some central banks withdraw monetary accommodation, although, it was stressed that monetary policy decisions of monetary authorities were being adjusted to conditions prevailing in particular economies, which meant that certain central banks were continuing to conduct expansive monetary policy. With this regard, it was underlined that the ECB was keeping negative interest rates and was still conducting big scale asset purchases, whereas the US Federal Reserve was keeping interest rates close to zero while signalling the possibility of announcing in December a more rapid deceleration of asset purchases, which together with an increase in the risk aversion had led to an appreciation pressure on the US dollar in global markets. In turn, the central banks of Central-Eastern Europe as well as in certain advanced economies have been increasing interest rates.

While analysing the situation in the Polish economy, the Council members drew attention to the fact that despite the next wave of infections, economic conditions remained very robust. This was reflected in the preliminary estimates of GDP, according to which annual GDP growth in 2021 Q3 stood at 5.3%, therefore had turned out to be higher than expected. It was emphasized that in Q3 investment had accelerated significantly and its growth had increased to 9.3%. Moreover, it was indicated that both data on industrial production, retail sales and construction and assembly output for October 2021, as well as high frequency data and business sentiment indicators for November pointed to a solid increase in economic activity also in 2021 Q4. It was stressed that the situation in the labour market likewise continued to improve, as indicated by rising employment, decreasing unemployment and a marked increase in average wages. This, in turn, supported consumption. It was judged that in the coming quarters economic situation was to remain favourable, however, subject to uncertainty stemming from the course of the pandemic and its impact on economic conditions, as well as the persistence of supply-side constraints and high energy commodity prices, which constituted a negative supply shock for the economy.

At the meeting, it was pointed out that according to the Statistics Poland flash estimate, inflation in Poland had risen to 7.7% y/y in November 2021, and increased by 1.0% in monthly terms. It was underlined that growth of energy prices, including fuels, but also of food prices accelerated further. Growth in prices of other goods had most likely also increased, especially of those, whose production and distribution process was subject to strains in the global supply chains and disruptions in shipping. At the same time, it was noted that the price growth of services had most likely decreased slightly.

The Council members highlighted that heightened inflation was still mainly the result of the impact of external factors beyond the control of domestic monetary policy, such as higher than a year ago prices of energy and agricultural commodities in global markets, earlier increases in electricity prices and in waste disposal charges, as well as rising prices of goods, which were subject to global pandemic disruptions. At the same time, the Council members judged that the ongoing economic recovery, including robust demand stimulated by rising household income, was also adding to the price growth. In this regard, certain Council members pointed to an increase in core inflation indices. These Council members also drew attention to the rise in inflation expectations of households in the recent period. At the same time, the Council members pointed out that the increase of the NBP interest rates had been acting towards curbing inflation expectations. Certain Council members stressed that available data indicated a pass-through of the recent NBP interest rate increases into a rise of interest rates on loans, whereas the impact on interest rates on deposits was weaker so far. Certain Council members 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 in 2022 the annual price growth of consumption goods and services would remain at an elevated level, mainly as a result of a further rise in prices of gas, electricity, heat energy and solid fuels, therefore as a result of negative supply shocks, which were independent from the domestic monetary policy. It was underlined that uncertainty regarding the impact of regulatory factors on inflation persisted, including regarding the decision of the President of the ERO on tariffs on electric energy, natural gas and heat energy in 2022. It was emphasised that in current circumstances a rise in energy prices and other costs would gradually translate into prices of other goods and services in the CPI basket. At the same time, it was pointed out that the government had decided to introduce the so-called Antiinflationary Shield that would include a reduction in some tax rates, which would curb inflation during the time when the lowered rates would apply. It was judged that in a longer perspective, price growth would decrease, which would be supported by expected fading of some global shocks currently boosting inflation, as well as by the increase in the NBP interest rates. The Council members concluded, however, that amidst expected continuation of economic recovery and favourable labour market conditions – despite the previous NBP interest rates increases – there persisted a risk of inflation running above the NBP inflation target in the monetary policy transmission horizon.

The Council members recognised that, in order to lower inflation to the NBP target in the medium term, the NBP interest rates should be raised again. The increase of the NBP interest rates would also curb inflation expectations. The Council decided to raise the NBP reference rate by 0.50 percentage points, i.e. to 1.75% and to set the remaining NBP interest rates at the following levels: the lombard rate at 2.25%, the deposit rate at 1.25%, the rediscount rate at 1.80%, and the discount rate at 1.85%.

The Council members pointed out that decisions of the Council in the coming months would continue to be aimed at reducing inflation to a level consistent with the NBP inflation target in the medium term, while taking into account economic conditions, so as to ensure medium-term price stability and at the same time support sustainable economic growth after the global pandemic shock. The Council's assessment regarding the total scale of monetary tightening necessary for achieving these goals would consider incoming information on perspectives for inflation and economic growth, including situation in the labour market. Certain Council members expressed an opinion that ongoing significant uncertainty remained an important factors to be accounted for in monetary policy decisions.

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