

Warsaw, 8 July 2021

Information from the meeting of the Monetary Policy Council held on 8 July 2021

The Council decided to keep the NBP interest rates unchanged:

- **reference rate at 0.10%;**
- **lombard rate at 0.50%;**
- **deposit rate at 0.00%;**
- **rediscount rate at 0.11%;**
- **discount rate at 0.12%.**

NBP will continue to purchase government securities and government-guaranteed debt securities on the secondary market as part of the structural open market operations. The timing and scale of the conducted measures will depend on the market conditions. Furthermore, NBP will also offer bill discount credit aimed at refinancing loans granted to enterprises by banks.

The recent period has seen a reduction in scope of pandemic around the world. However, the spread of new variants of virus has been driving up the uncertainty regarding the further course of the pandemic. The gradual easing of sanitary restrictions has led to an improvement in business conditions in the services sector in many economies. At the same time the activity in industry sector has continued to increase, alongside supply restrictions in certain markets. In the euro area 2021 Q2 brought a recovery in economic activity, after a fall in GDP in 2021 Q1.

The prices of many commodities, in particular oil, has increased recently and are currently significantly higher than a year ago. Along with the supply-side disruptions related to the pandemic, this is exerting an upward pressure on global inflation, including in advanced economies. However, due to temporary nature of factors driving up inflation and uncertainty about the economic outlook, major central banks are keeping interest rates low, conducting asset purchases as well as signalling that loose monetary policy will be maintained in the future.

In Poland, recent months have seen a significant recovery in economic activity. In May 2021, retail sales grew significantly, supported by realisation of previously postponed purchases. At the same time, business conditions in industry remained very favourable. The construction and assembly output increased in annual terms, but its level remained significantly lower than before pandemic. This was accompanied by an increase in average employment in the enterprise sector and stabilization in annual average wage growth in this sector.

According to the Statistics Poland flash estimate, inflation in Poland decreased to 4.4% y/y in June 2021 (in monthly terms it amounted to 0.1%). At the same time core inflation excluding food and energy prices declined – according to the preliminary

estimation – to the lowest level in over a year. The annual inflation rate continued to be pushed up by high fuel price growth – related to the significantly higher global oil prices than a year ago – as well as the increase in electricity prices at the beginning of 2021 and the increases in waste disposal charges, i.e. by the factors that are beyond the control of domestic monetary policy. The growing costs of running business amidst the pandemic, higher international transport charges and temporary disruptions in supply chains, also continue to add to inflation.

The above-mentioned factors will probably translate into annual price growth staying above the upper band for deviations from the inflation target in the coming months. At the same time, next year – after the factors temporarily increasing price growth fade – inflation is expected to decrease. Price developments next year will depend on the robustness of economic recovery, including the situation in the labour market following phasing-out of the anti-crisis measures.

Available forecasts indicate that the coming quarters will see a further recovery in economic activity, although its scale and pace are highly uncertain. The further course of the pandemic and its impact on economic situation in Poland and abroad continues to be the main source of uncertainty. The economic policy measures, including the easing of NBP's monetary policy introduced last year, and the expected recovery in the global economy will have a positive impact on the domestic economic situation. The pace of the economic recovery in Poland will also depend on further developments of the zloty exchange rate.

The Council became acquainted with the results of the July projection of inflation and GDP based on the NECMOD model. In line with the projection prepared under the assumption of unchanged NBP interest rates and taking into account data available until 22 June 2021 there is a 50-percent probability that the annual price growth will be in the range of 3.8–4.4% in 2021 (against 2.7–3.6% in the March 2021 projection), 2.5–4.1% in 2022 (compared to 2.0–3.6%) and 2.4–4.3 in 2023 (compared to 2.2–4.2%). At the same time, the annual GDP growth – according to this projection – will be with a 50-percent probability in the range of 4.1–5.8% in 2021 (against 2.6–5.3% in the March 2021 projection), 4.2–6.5% in 2022 (compared to 4.0–6.9%) and 4.1–6.5% in 2023 (compared to 4.0–6.8%).

As indicated in *Monetary Policy Guidelines for 2021*, due to the macroeconomic and financial shocks, inflation may temporarily deviate from the target and even run outside the band for deviations from the target. The response of monetary policy to the shocks is flexible and depends on their causes and the assessment of persistence of their effects, including their impact on inflation developments. NBP's monetary policy supports the consolidation of economic recovery following the pandemic-induced recession and stabilises inflation at the level consistent with the NBP's inflation target in the medium term.

Taking into account the sources and the expected temporary nature of inflation exceeding the NBP's target, as well as the uncertainty about the robustness and scale of

the economic recovery, NBP is keeping interest rates unchanged. At the same time, NBP will continue to purchase government securities and government-guaranteed debt securities on the secondary market as part of the structural open market operations. These operations are aimed at changing the long-term liquidity structure in the banking sector, ensuring the liquidity in the secondary markets for the purchased securities and enhancing the impact of the NBP's interest rate cuts on the economy, i.e. strengthening the monetary policy transmission mechanism. In order to strengthen the impact of the NBP's monetary policy easing on the economy, NBP may also intervene in the foreign exchange market. The timing and scale of the measures taken by NBP will depend on the market conditions. Furthermore, NBP will also continue to offer bill discount credit aimed at refinancing loans granted to enterprises by banks.

The Council adopted the *Inflation Report – July 2021*.