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

During the discussion the Council members pointed out that the surge of the pandemic and the related restrictions had had a negative impact on global economic activity in 2020 Q4 and at the beginning of 2021. Attention was drawn to the fact that the euro area had slipped into recession again in 2020 Q4. It was observed that available data on the economic situation at the beginning of 2021 pointed to a continued downturn in the services sector, with a further rise in industrial output. At the same time it was underlined that the negative impact of weakened activity in services on the overall economic situation was so significant that 2021 Q1 would most likely see a fall in GDP in quarterly terms. Moreover, the majority of the Council members underlined that even under the assumption of an improvement in the pandemic situation in the second half of the current year, the forecasts indicated only a moderate economic growth in the euro area for the whole of 2021.

The Council members pointed out that despite slight rise in some countries in January, inflation in the global economy was low. The majority of the Council members emphasised that in January and February inflation in the euro area had increased, but the rise had taken place after half a year of deflation, and the increase in price growth was largely the result of regulatory factors, including the hike in the VAT rates in Germany (after their temporary lowering in the second half of 2020). Inflation had also been boosted by the rise in commodity prices in the global markets in recent months, including in particular the rise in oil prices. Certain Council members judged that the rising prices of this commodity reflected an optimistic assessment of the outlook for global demand by investors, supported by the progress of the COVID-19 vaccination programmes and the highly expansionary economic policy in many countries. They pointed out that oil prices would also be boosted by the implementation of the policy of limiting oil production by the countries associated in OPEC+ and the temporary increase in demand for oil as a result of unfavourable meteorological conditions in Europe and in some areas of the United States. Certain Council members expected that a further increase in oil prices was likely in the nearest future.

The Council members underlined that the major central banks were continuing their highly expansionary monetary policy, including maintaining low interest rates and continuing asset purchases. The majority of Council members drew attention to the fact that the ECB had announced the continued monetary support even after the end of the pandemic and the economic crisis. The ECB had also announced that it would not adjust its monetary policy in response to the current, temporary rise in inflation. Also, the Federal Reserve of the United States reiterated that it would conduct an accommodative monetary policy until an improvement was seen in the achievement of the bank's objectives.

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When referring to the Polish economy, it was pointed out that preliminary data on national accounts for 2020 Q4 confirmed that GDP had fallen in this period. Activity had declined under the influence of a fall in consumption and lower investment than a year ago However, the scale of the fall in GDP had been limited by the positive impact of net exports.

The majority of the Council members judged that at the beginning of 2021 the economic conditions in Poland remained weakened, with the situation varying between sectors. It was observed that incoming data pointed to the continued, relatively good situation in industry, particularly in sectors oriented to exports. At the same time, it was underlined that industrial output growth had declined in January, while production oriented to the domestic market had risen much slower than export production. It was judged that along with the fall in retail sales, this suggested a weakening of domestic demand, which was limited by the restrictions in force. It was pointed out that this was accompanied by a fall in construction and assembly output in January.

The Council members judged that the situation in the labour market remained favourable. However, it was observed that in January it had deteriorated somewhat, as was indicated by the fall in average employment in the enterprise sector in this period.

The Council members observed that a rise in economic activity was expected in 2021, although the scale and speed of the recovery were uncertain. The further course of the pandemic and its impact on the economic situation in Poland and abroad continued to be the main source of uncertainty. It was underlined that according to NBP's March projection, following the fall in GDP in 2021 Q1, the following quarters would see growth in economic activity supported by rising exports and a strengthening of domestic demand. It was observed that the economic policy measures implemented so far, including the easing of NBP's monetary policy and the expected recovery in the global economy, would have a positive impact on the economic situation. In 2022 GDP growth would be additionally supported by the inflow of European Union funds, and – in line with NBP's March projection – economic growth would be higher than in 2021.

The majority of Council members judged that the risk for the realisation of the forecast scenario of GDP growth was currently high. They underlined that the pace of the improvement in the domestic economy would depend not only on the further course of the pandemic, but also on the response of economic entities to the normalisation of the epidemic situation, particularly in regard to savings and investment. Moreover, these Council members observed that the pace of the economic recovery in Poland might be reduced by the lack of a visible and more durable zloty exchange rate adjustment to the global pandemic shock and to the monetary policy easing introduced by NBP.

When discussing price developments, the Council members pointed out that according to the Statistics Poland flash estimate, inflation stood at 2.7% y/y in January. It was observed that the slight increase in price growth compared to December 2020 was almost entirely the result of faster growth in energy prices, related to an increase in administered tariffs for electrical energy and higher global oil prices. It was underlined that these factors were negative supply shocks and were beyond the control of domestic monetary policy.

Council members observed that in the coming months, with price growth being boosted by the base effect in fuel prices and the current increase in global oil prices, inflation might pick up. The majority of Council members pointed out that in the whole 2021 regulatory factors, such as the rise in the price of electricity and in waste disposal charges, would continue to drive inflation up. Those members also stressed that those were factors beyond the scope of monetary policy control. They also observed that despite the expected improvement in economic conditions, the output gap in 2021 would remain negative, constraining inflation growth.

Referring to the prospects for inflation in the subsequent years, it was pointed out that they were surrounded with considerable uncertainty. It was pointed out that according to the central path of the March projection, inflation was expected to be slightly lower in 2022 than this year and run at 2.8%, while in 2023 it might increase to 3.2%, as the previous recovery in activity gradually fed into prices.

The majority of Council members observed that, should epidemic developments take an undesirable course, activity might take longer to rebound than currently expected, which would also postpone the anticipated rise in the demand pressure. At the same time, those members expressed the view that as economic activity recovered and the impact of the pandemic faded, factors that had acted to limit price growth in earlier years would resurface, including the increasing globalisation of services and mounting competition in the global economy. In the opinion of the majority of the Council members, inflation might be additionally curbed by the increase in the automation and digitalisation of production of goods and some services related to the pandemic crisis.

Certain Council members, on the other hand, assessed that inflation might prove higher than forecast, due to, among other things, the realisation of pent-up demand after the restrictions had been lifted. Certain Council members also argued that price growth might be boosted by constraints on the supply of commodities and raw materials amid a rise in demand for semi-products during the economic recovery. These members also judged that the changes in the global value chains might be permanent, and hence their operation after the pandemic would not be a factor dampening price growth.

Council members assessed that the activities of NBP taken so far, aimed at reducing the economic cost of the pandemic, had been effective. They highlighted the relatively strong GDP data for 2020, according to which the decline in GDP in Poland was less than half the average of EU countries. They also underlined that despite the considerable scale of the shock, the situation in the labour market remained good, as indicated by the still low unemployment rate and continued relatively rapid wage growth, also in real terms. Furthermore, they observed that the fairly favourable financial situation of Polish firms and households was demonstrated by the substantial increase in the funds held on their bank accounts.

While discussing monetary policy, Council members were of the opinion that at the current meeting interest rates should be kept unchanged and the remaining measures of NBP should be continued.

The majority of the Council members judged that if economic recovery progressed in 2021 and price growth in medium term was in line with the inflation target, it would also be advisable to keep interest rates unchanged in the subsequent quarters. At the same time, in the opinion of these Council members, if the economic conditions and outlook were to deteriorate significantly, e.g. due to a new surge in the pandemic, further monetary policy easing might be justified, including by a reduction in the interest rate.

Certain Council members believed that, should further easing of monetary conditions be necessary, a further cut in the NBP interest rates would not be advisable and instead additional measures aimed at supporting corporate lending should be implemented. In the opinion of these Council members NBP should exert greater impact on the longer end of yield curve in order to improve the effectiveness of monetary policy in limiting the increase in yields on government bonds and government-guaranteed debt securities.

Certain Council members argued that should a sharp rise in inflationary pressure appear in the coming quarters, it might be advisable to consider raising NBP interest rates in the second half of 2021. At the same time, the majority of Council members emphasised that the experience of other central banks pointed to a strong negative economic impact of tightening monetary policy too quickly.

It was observed that NBP's monetary policy mitigated the negative economic impact of the pandemic, supported economic activity and stabilised inflation at the level consistent with NBP's medium-term inflation target. Due to its positive impact on the financial situation of debtors, it was also conducive to the strengthening of financial system stability.

The Council decided to keep the NBP interest rates unchanged: the reference rate at 0.10%, the lombard rate at 0.50%, the deposit rate at 0.00%, the rediscount rate at 0.11%, and the discount rate at 0.12%.

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