# Minutes of the Monetary Policy Council decision making meeting held on 13 January 2021

During the discussion the Council members pointed out that in 2020 Q4 – as COVID-19 infections increased and sanitary restrictions were tightened again in some countries – the global recovery had slowed down. The pace of the global economic recovery had been negatively affected primarily by deteriorating situation in the services sector, while industrial activity had continued to grow. It was observed that despite weakened economic conditions, GDP growth in some economies had probably been positive in 2020 Q4. However, it was judged that the euro area economy had probably again plunged into recession in that period. It was pointed out that GDP growth in the euro area had been dragged down mainly by a downturn in the services sector. In turn, economic growth in the region had been boosted by relatively robust external demand, which had supported industrial activity in the euro area.

The Council members observed that the epidemic situation in Europe remained difficult. In some countries, the number of new infections remained elevated, and a new rise in infections was observed in a number of economies. This was causing the authorities in many European countries to extend or tighten existing restrictions. Some Council members expressed the opinion that under the circumstances, despite the fact that vaccinations had started in many countries, uncertainty about the further course of the pandemic and its impact on global economic conditions had risen. Referring to the economic outlook in the euro area, the Council members judged that a possible resurgence in global COVID-19 infections might hurt not only the services sector, but also exports, and consequently have an adverse impact on the region's GDP. That would reduce the chance that inflation in the euro area would rise from its current very low levels.

It was indicated that under such circumstances the ECB and other major central banks – the Federal Reserve, Bank of Japan and Riksbank – had recently continued their monetary policy easing, primarily through increasing the scale of asset purchases or extending the announced duration of their operation. At the same time, those banks had continued to communicate that they would maintain interest rates at a very low level over the next few years.

In view of the further easing of monetary policy by the major central banks and the improved sentiment in the international financial markets following the launch of COVID-19 vaccinations, the prices of some financial assets, including those of emerging economies, had risen. This was accompanied by an increase in the prices of some commodities in the global markets, including the prices of oil.

When referring to the Polish economy, it was pointed out that the rise in COVID-19 infections and the tightening of the epidemic restrictions in 2020 Q4 had had a negative effect on economic activity. It was observed that there had been a marked slump in


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business conditions in the services sector, as indicated by a t fall in retail sales in October and November and the declining expenditure on services settled by payment cards. Certain Council members emphasised that although the slowdown in activity was registered only in some sectors, those sectors made a substantial contribution to GDP. At the same time, it was observed that the situation in the industrial sector remained favourable, as indicated by sustained industrial output growth. It was judged that the progressive increase in production showed that Polish companies had adapted their operations to the restrictions and requirements related to the pandemic. It was pointed out that output had risen particularly robustly in sections where a significant part of the products were exported. It was judged that rising exports were the main factor supporting economic activity in 2020 Q4. It was observed that current forecasts suggested that annual GDP growth in 2020 Q4 was still negative and probably lower than in the previous quarter.

While discussing the situation in the labour market, it was pointed out that the November data suggested a stabilisation of average employment and the annual growth of average wage in the corporate sector. It was also observed that the registered unemployment rate remained stable.

The Council members judged that current forecasts suggested a rebound in economic activity in 2021, although uncertainty about its scale and pace had increased. The main source of this uncertainty was the further development of the pandemic and its impact on the economic situation at home and abroad. It was observed that the economic policy measures taken so far, including the easing of NBP's monetary policy, would have a positive impact on the economic situation.

At the same time, the majority of the Council members believed that the economic recovery in 2021 would be gradual. It was stated that the heightened uncertainty and weaker sentiment of economic agents than before the pandemic would result in a substantial decline in investment. The majority of the Council members were of the opinion that, in view of the increased likelihood of a new surge in COVID-19 infections and an extension of the restrictions in Poland and abroad, there was a higher risk that GDP growth in the coming quarters would be weaker than previously expected. These members judged that under these conditions the financial situation of part of companies might deteriorate further, resulting in higher unemployment and slower wage growth. Furthermore, the majority of the Council members observed that in the case of a synchronised surge in the pandemic across many countries, external demand might decline, with a negative impact on domestic activity.

The Council members pointed out that the development of zloty exchange rate against the major currencies would be a factor affecting domestic economic conditions and prices in 2021. It was observed that amid a negative shock, exchange rate adjustments were an important mechanism of shock absorption, as evidenced by Poland's experience during the global financial crisis. The majority of the Council reiterated that the lack of a visible and more durable zloty exchange rate adjustment might reduce the pace of economic recovery. In this context it was highlighted that in 2020, despite the major shock related to


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the COVID-19 pandemic and the easing of NBP' monetary policy, zloty real effective exchange rate had remained stable. The majority of the Council members also emphasised that the risk of a slower and weaker recovery in domestic activity and – as a result of an excessive slowdown in price growth - was boosted by pressure on the zloty to appreciate observed since the end of October 2020 and related to the further monetary policy easing by the major central banks. The majority of the Council members judged that the foreign exchange interventions conducted since December 2020 had curbed the risk of a procyclical strengthening of the zloty and amplified the impact of NBP's monetary policy easing on the economy.

Certain Council members were of the opinion that the positive effect of zloty depreciation on export activity might currently be smaller than in the past. They judged that the impact of zloty exchange rate movements on the financial performance of companies was limited by the significant import intensity of goods exports and the fact that many Polish companies operate as part of global value chains.

When referring to inflation, the Council members pointed out that consumer price growth had declined significantly in December 2020 and was running close to 2.5%. It was observed that the decrease in inflation resulted partly from a marked decline in core inflation, and partly from the slower growth in the prices of food and non-alcoholic beverages.

The majority of Council members assessed that inflation in 2021 would run at a level consistent with the NBP inflation target. These members emphasised that this year's inflation would continue to be boosted by regulatory factors, which act as negative supply shocks, including a further rise in electricity prices for households and waste disposal charges. It was observed that since 2021 Q2 annual price growth would also be increased by base effects related to the waning of the impact of the 2020 decline in oil prices.

Certain Council members judged that inflation in 2021 would be slightly higher than the current forecasts suggest. These members were of the opinion that inflation would be pushed up by the satisfaction of deferred consumer demand and – following an improvement in sales prospects – the adjustment of prices of goods and services to the earlier rise in production costs.

The Council members observed that the deposits of both households and non-financial companies had risen sharply in 2020. They judged that the rise in funds deposited in banks despite an economic slump had been caused by the continued heightened uncertainty about the future economic situation, discouraging consumer and investment spending. Moreover, the increase in corporate deposits had resulted from the fact that many companies had received considerable state aid funds. The majority of the Council members expressed the opinion that in such conditions the demand for credit – especially working capital credit – from enterprises was strongly limited.

While discussing monetary policy, the Council members were of the opinion that the present meeting should keep interest rates unchanged and continue to pursue NBP's remaining measures.


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The majority of the Council members judged that if economic recovery progressed in 2021 and price growth 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 NBP interest rates would not be advisable and instead the additional measures aimed at supporting corporate lending should be implemented.

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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