Minutes of the Monetary Policy Council decision-making meeting held on 8 April 2020

While discussing the current economic situation, the Council members drew attention to the fact that the COVID-19 pandemic and the measures taken to contain its spread had contributed to a significant fall of the economic activity in many countries. This was accompanied by a sharp deterioration in business sentiment, indicating a collapse in services activity and a sharp downturn in industry. In addition, the situation in the labour market had deteriorated. Therefore, incoming data indicated that the scale of the negative economic impact of the pandemic was probably greater than earlier estimates. As a result, GDP forecasts around the world – including at Poland's main economic partners – had been revised sharply downwards. At the same time, in China – after probable containment of the epidemic and easing of the restrictions – the first signs of a recovery in economic activity had appeared.

The deterioration in the global economic outlook has kept risk aversion elevated in the global financial markets. This was reflected in increased price volatility of many assets, as well as a tightening of financing conditions. At the same time, since the beginning of the year global oil prices have declined significantly. It was pointed out that this was driven by the fall in current and forecast demand for this commodity amid a sharp contraction of economic activity, in the absence of an agreement on reducing oil production between Saudi Arabia and Russia. Certain Council members judged that in the coming months oil prices might rise, while remaining lower than in the previous years. The expected weakening of global demand had also contributed to the fall in the prices of some food commodities.

The Council members judged that the scale of the negative economic effects of the pandemic in many countries might be limited by the fiscal measures adopted. It was pointed out that the launch of fiscal programmes was mainly aimed at mitigating the impact of COVID-19 on the financial situation of enterprises and – as a result – on the level of employment and household income. It was underlined that effective measures in this area were key for the ability of economies to restore activity quickly after the resolution of the current disruptions.

The fiscal measures introduced in many economies were accompanied by a significant easing of monetary conditions. Many central banks had cut interest rates, increased liquidity in the banking sector, and were conducting asset purchases. It was emphasised that monetary policy easing was being carried out quickly and on a large scale.

The Council members expressed the opinion that the measures taken by the governments and central banks would contribute to an improvement in the medium-term economic outlook. At the same time, they emphasised that it was difficult to estimate the scale of their positive impact on economic growth, which, along with the

ul. Świętokrzyska 11/21 00-919 Warszawa, Poland phone +48 22 185 28 88 sekretariat.rpp@nbp.pl

limited capacity to predict the further course of the pandemic, caused significant uncertainty about GDP growth in the coming quarters.

In Poland the economic conditions in the first months of the year were relatively good. However, the Council members judged that the measures taken to limit the spread of the epidemic – although necessary from the point of view of public health protection – were contributing to a fall in economic activity, the scale of which could be very significant in the short term. It was emphasised that the fall in economic activity would be accompanied by a deterioration in the situation in the labour market and a reduction in household disposable income. It was also underlined that the health threat associated with COVID-19 along with the negative economic effects of the epidemic had led to a slump in consumer and business sentiment. It was judged that after the resolution of the disruptions associated with the pandemic, there would probably be a gradual improvement in the economic situation in the medium term. At the same time, it was pointed out that the pace and scale of the recovery were subject to considerable uncertainty. They would depend on the long-term impact of the disruptions on the income and sentiment of businesses. It was indicated that should the weakened sentiment persist, it could lower significantly the propensity of enterprises to invest and households to consume, adversely affecting GDP growth and inflation.

It was emphasised that the negative impact of the epidemic on economic growth would be mitigated by the stimulus packages introduced in Poland and many other countries. It was judged that the strong macroeconomic fundamentals of the Polish economy, related to the low level of internal and external debt and high competitiveness, would have a positive impact on the medium-term economic outlook. It was underlined that the maintenance of price competitiveness of Polish exports, and also their geographical and sectoral diversity, would support the restoration of Polish foreign sales after the fading of the pandemic, which would take place amid intensified competition in international markets.

It was pointed out that in the coming months inflation would most likely decline significantly. Slower price growth would be supported by the expected fall in global economic activity and weakening of domestic demand. Inflation would also be lowered by lower commodity prices in the global markets. Taking this into account, the majority of the Council judged that – despite the easing of NBP's monetary policy in the recent period – the risk of inflation falling below NBP's inflation target over the monetary policy transmission horizon remained. Certain Council members expressed the opinion that the fall in economic activity might be accompanied by an increase in price growth in the medium term.

The majority of the Council members judged that, taking into account the significant deterioration in the economic outlook and the increased risk of a fall in inflation below the NBP target in the medium term, NBP interest rates should be cut once again at the current meeting. These Council members pointed out that the decision would directly lead to a further reduction in instalments on loans with a variable interest rate taken out by enterprises and households. The reduction in debt servicing costs would therefore mitigate the negative impact of the COVID-19 restrictions on the financial situation of enterprises and households and would reduce the risk of their insolvency. As a result, the interest rate cut would contribute to limiting the secondary effects of the COVID-19 epidemic – such as an increase in unemployment and a sharp fall in consumer demand – thus improving the country's medium-term outlook and strengthening the stability of the financial system. It was emphasised that this effect would be strengthened by the positive impact of the interest rate cut on business sentiment after the pandemic had ended. Mitigation of the negative impact of the pandemic on economic activity would also be supported by a decline – as a result of the decrease in interest rates – in yields on Treasury bonds and the costs of public debt servicing, which would provide more room for the necessary fiscal stimulus. The majority of the Council members pointed out that an interest rate cut, supporting the economic growth with all of the indicated channels, would reduce the risk of a fall in inflation below the NBP inflation target over the monetary policy transmission horizon.

A view was expressed that although the monetary policy should be eased at the current meeting, it should be made more expansionary through direct influence on the longer end of yield curve, rather than by reference rate cut.

The Council members underlined that in order to strengthen the easing of monetary conditions in the economy, NBP should continue to carry out the purchase of Treasury securities, while extending the range of purchased assets to include debt securities guaranteed by the State Treasury. Purchase operations will be carried out in the secondary market as part of the structural open market operations. The aim of these operations will be to change the long-term liquidity structure in the banking sector, maintain liquidity in the secondary market of the purchased securities and strengthen the impact of the NBP interest rate cuts on the economy, that is, strengthen the monetary transmission mechanism. The timing and scale of the operations will depend on the market conditions.

NBP will also offer bill discount credit intended to refinance corporate loans granted by banks.

It was pointed out that all the measures taken by NBP were aimed at reducing the negative economic consequences of the pandemic and creating the conditions for a rapid recovery in economic activity after the current disruptions had ceased. As a result, these measures support the maintenance of macroeconomic and financial stability, while also reducing the risk of inflation falling below the NBP inflation target in the medium term.

At the meeting a motion was submitted to lower the NBP interest rates by 0.5 percentage points, i.e. the reference rate to 0.50%, the lombard rate to 1.00%, the deposit rate to 0.00%, the rediscount rate to 0.55%, and the discount rate to 0.60%. The motion passed.

At the meeting a motion was submitted to extend the purchase of assets by including securities guaranteed by the State Treasury and Treasury securities with a maturity not exceeding 1 year. The motion passed.

At the meeting a motion was also submitted to introduce repo operations with over two-year maturity and interest of 0.25%. The motion did not pass.

The Council set the NBP interest rates as follows: the reference rate at 0.50%, the lombard rate at 1.00%, the deposit rate at 0.00%, the rediscount rate at 0.55%, and the discount rate at 0.60%.

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