Minutes from the Monetary Policy Council decision making meeting held on 15 September 2020

The Council members pointed out that data on GDP in 2020 Q2 in many economies confirmed a sharp drop in activity, including in the immediate environment of the Polish economy. In particular, euro area GDP declined by 14.7% y/y. It was observed that confidence in many economies had improved in July and August 2020 as the epidemic restrictions had been relaxed. This was also supported by the introduced fiscal measures and the accompanying easing of monetary policy. The Council members also judged activity in this period to have been boosted by an increase in households' demand for goods and services that could not be satisfied earlier due to the restrictions.

The Council members emphasised that the global economic activity, in particular industrial output in many economies and global trade, was still below the levels observed before the onset of the pandemic. It was pointed out that current forecasts indicated an improvement in global economic conditions in the second half of 2020, yet activity would remain lower than before the pandemic. At the same time, it was underscored that uncertainty persisted about the pace and robustness of the improvement in the global economic conditions. The further path of the pandemic remained the key risk factor here. In this context, the Council members observed that the number of new coronavirus infections in the world was on the rise again, exceeding in many countries the March or April 2020 figures. As a result, some countries were opting for a restoration or tightening of epidemic restrictions.

The Council members pointed out that according to current forecasts economic activity in the largest economies, including in the Poland's immediate environment, would rebound to the pre-pandemic levels only in 2022. It was assessed at this point that global economic activity in the subsequent quarters would be hampered by – besides increased uncertainty – deteriorating labour market conditions, a decline in global trade and a rise in debt, which, while helping to alleviate the impact of the economic crisis at the moment, might drag on growth in the longer term.

According to current forecasts, global inflation is to remain low, which, apart from depressed economic activity, will also be supported by the previous fall in global commodity prices. In this context, it was pointed out that the annual price growth in the euro area had dropped below zero in August.

The Council members observed that considering the above macroeconomic conditions, the major central banks were signalling the maintenance of interest rates at a level close to zero and continued asset purchases in the subsequent quarters. Against this background it was emphasised that the Federal Reserve had recently de facto raised its inflation target for the subsequent years, thus indicating it would not tighten its monetary policy for some time to come.

In Poland, a marked decline in GDP occurred in 2020 Q2, albeit smaller than in many other EU countries. Council members emphasised that despite the fall in both domestic

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demand – including private consumption and investment – and exports, the decline in GDP was smaller than forecast. At the same time, it was pointed out that in 2020 Q2, the number of persons working in the economy had fallen and wage growth in the economy had declined.

The Council members assessed that incoming data pointed to an improvement in sentiment and a revival in economic activity in the past few months, even though GDP would remain lower in 2020 Q3 than the year before. It was pointed out that the annual growth in retail sales, industrial output and exports had turned positive by July, yet the decline in construction and assembly output had deepened. It was highlighted that business and consumer sentiment indicators had decreased in August, following their prior rise. Certain Council members stressed that surveys of companies suggested that their investment activity would remain limited. On the other hand, certain Council members highlighted the fact that the expected rise in consumption and exports, coupled with the implementation of infrastructure projects from public funds, would support investment.

The Council members were of the opinion that economic activity might be expected to pick up further in the subsequent months. This would be supported by continued improvement in the economic climate in the external environment of the Polish economy and economic policy measures, including monetary easing by NBP. At the same time, it was assessed that the scale of the recovery might be limited by uncertainty about the future development and effects of the pandemic, which might have an adverse effect on consumption, investment and lending. The Council members also observed that the scale of economic recovery might be dampened by the lower wage growth and weaker business sentiment than in previous years. The majority of the Council members judged in this context that the risks to economic growth in the coming quarters were mostly tilted to the downside. The majority of Council members were of the opinion that the pace of economic growth might be also limited by the lack of a visible zloty exchange rate adjustment to the global pandemic-driven shock and to the monetary easing introduced by NBP.

The Council members also emphasised that a key factor determining economic conditions in the coming quarters would be the situation in the labour market. Against this background, it was pointed out that wage growth had slowed down substantially in recent months, while the decline in the number of working persons and the increase in unemployment was limited. At this point, some Council members drew attention to the fact that as the instruments of the anti-crisis shield were phased out, a greater adjustment to the depressed demand in the economy might take place, which would have a negative impact on household sentiment and consumption. In this context, it was pointed out that the concerns of the surveyed households about unemployment had risen recently.

When referring to inflation, the Council members emphasised its decline to 2.9% y/y in August 2020. It was pointed out that the annual CPI index was 1.8 percentage points lower in August than in February 2020. Some Council members underlined the sustained negative producer price growth. In turn, certain Council members observed that core inflation and services price growth continued to exceed CPI inflation.

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The majority of the Council members judged that inflation might be expected to decline further in the subsequent quarters, which would be supported by the persistently negative output gap, higher unemployment, slower wage growth and absence of inflationary pressure from abroad. A further decline in inflation was also indicated by external forecasts. These members judged that although some regulatory factors might put upward pressure on prices, their impact on inflation would probably be smaller than in 2020. On the other hand, certain Council members were of the opinion that inflation in the coming quarters might remain close to the currently observed level, which might result from the persistence of elevated services price growth, impact of regulatory factors and a potential rise in commodity prices.

The Council members pointed to out a decrease in annual lending growth in the economy. In this context, particular attention was given to the decline in corporate lending growth. It was stressed that the decline had been caused to a large extent by lower demand for working capital loans, which might be related to companies receiving funds as part of the anti-crisis shield. Certain Council members judged that the drop in corporate lending in recent months was cyclical in nature and that the surveyed enterprises did not report any deterioration in the availability of bank credit. In contrast, certain Council members drew attention to a tightening of lending criteria reported by banks.

The Council members observed that the measures taken by NBP so far had contributed to an easing of financing conditions in Poland. In particular it was emphasised that interest rate cuts had translated into lower expenses of indebted enterprises and households, and as a result they supported their budgets. It was also judged that the NBP interest rate cuts were reflected in lower yields on Treasury bonds. It was underlined that this effect was boosted by the asset purchases conducted by NBP.

Certain Council members emphasised that in response to the reduction in the NBP interest rates, commercial banks had also cut interest rates on deposits. In the opinion of these Council members, cutting interest rates on bank deposits led to an increase in current deposits at the expense of term deposits, and to depositors seeking higher-risk investment, including in the real estate market. Yet the majority of Council members assessed that no imbalances that might pose a threat to macroeconomic or financial stability were building up in the real estate market.

The majority of Council members judged that due to their positive impact on the financial position of indebted enterprises and households, the interest rate cuts would support the stability of the banking sector. These members also judged that the banking sector was characterised by high capital ratios and high liquidity, and that lending margins remained relatively high, which created favourable conditions for banks to expand lending. It was pointed out that the increased risk in the economy had been a factor curbing lending. Certain Council members pointed out that the number of banks reporting losses had increased.

The Council members were of the opinion that following the earlier significant interest rate cuts and the launch of asset purchases, the present meeting should keep interest rates unchanged and continue to pursue NBP's remaining measures. It was pointed out that

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NBP's monetary policy easing mitigated the negative economic effects of the pandemic, limiting the scale of the decline in economic activity and supporting the income of households and enterprises. As a result, NBP's monetary policy contributes to mitigating the fall in employment and limiting the deterioration of the financial situation of enterprises, supporting a quicker economic recovery. NBP's measures reduce the risk of inflation falling below the NBP inflation target in the medium term, and through a positive impact on the financial situation of borrowers, they contribute to the strengthening of the stability of the financial system.

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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