# Minutes of the Monetary Policy Council decision-making meeting held on 28 May 2020

While discussing the current economic situation, the Council members pointed out that incoming data confirmed a sharp decline in global economic activity in the aftermath of the COVID-19 pandemic. It was noted that many economies had seen a slowdown in economic growth already in 2019 Q4, yet the pandemic-driven shock had markedly exacerbated the economic downturn. In the economies of Poland's main trading partners this had been reflected in a decline in GDP in 2020 Q1 and a strong slump in industrial output and retail sales in April. This was accompanied by a marked deterioration in consumer and business sentiment. The situation in the labour market had also deteriorated, yet the scale of increase in unemployment varied across economies and was dependent on the introduced anti-crisis measures. It was emphasised that although business sentiment had improved in May – along with the gradual lifting of restrictions in the European economies – economic sentiment indicators remained at levels suggesting the likely persistence of weak activity also in the coming months.

Attention was drawn to the considerable uncertainty about the outlook for global economic growth. According to the current forecasts, global GDP will decline significantly in 2020. The year 2021 will see a rebound in economic activity, although the pace of the recovery will probably be slower than previously expected. It was pointed out that the renewed rise in COVID-19 cases, mounting geopolitical tensions and, primarily, the possible long-lasting impact of the pandemic on economic decisions of households and enterprises were risk factors for the fast return of global economic activity to the pre-COVID-19 levels.

Council members pointed out that the uncertainty about the outlook for global growth contributes to the heightened price volatility in the financial markets In turn, the weakening current and forecast demand was a factor driving down the prices of many commodities. Prices of energy commodities, including oil, are lower than at the beginning of the year. Certain members of the Council assessed that oil prices would remain below the previous years' levels in 2021. It was noted that the recent months had also seen declines in the prices of some food commodities. Along with declining economic activity, this contributed to a drop in inflation in many countries, including in Poland's main trading partners. The majority of Council members judged that given the current developments, there was a significant risk of deflation or permanently subdued inflation in the global economy which – given the considerable rise in public debt driven by fiscal stimulus packages – would have a negative impact on the outlook for global economic growth and macroeconomic stability. Other members of the Council pointed out that the recovery from the pandemic crisis would be accompanied by inflation.


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It was pointed out that in order to limit the negative consequences of the pandemic, many economies had introduced fiscal stimulus packages on a very large scale. It was indicated that the implemented fiscal stimulus packages were aimed at mitigating the impact of COVID-19 on the financial situation of enterprises, employment and households' income.

In many economies fiscal stimulus was accompanied by strong monetary easing. Many central banks have significantly cut their interest rates. Yet it was noted that the impact of those cuts on the economy in some countries was limited by a marked decline in price growth, boosting real interest rates. It was pointed out that many central banks had introduced or extended the existing financial asset purchase programmes and had taken other measures to increase liquidity in the banking sector. It was indicated that the measures taken by the major central banks of the developed countries along with the fiscal stimulus programmes in those economies had a positive impact on the financial market sentiment, thus contributing to the appreciation of emerging economies' currencies.

In Poland the economic conditions in the first months of the year were relatively good, although annual GDP growth for 2020 Q1 had decelerated. At the same time, industrial output and retail sales data for April confirmed the slump in economic activity driven by the COVID-19 pandemic. The negative impact of the pandemic was also reflected in the deteriorating labour market situation, indicated by falling employment and declining wages in the enterprise sector. It was also pointed out that the fall in employment had been curbed by the government's measures aimed at limiting the impact of the pandemic on the labour market. At the same time, it was emphasized that household and business sentiment had further deteriorated.

It was judged that the gradual lifting of restrictions related to pandemic, which started in May, would revive economic activity. However, it was stressed that the level of activity in the coming quarters would be lower than before the pandemic due to the declining income of some households and enterprises and higher uncertainty about their future financial situation.

It was observed that the negative impact of the pandemic on economic growth was mitigated by economic policy measures, including monetary easing by NBP. It was underlined that the measures taken so far by NBP translated into lower operating costs of indebted enterprises, supporting their financial performance and, as a result, limiting the scale of the decline in employment. In this way and also by reducing the credit charges, NBP's measures contribute to the improvement of the financial situation of households. It was also pointed out that although economic policy measures were limiting the negative economic effects of the pandemic, they were not able to offset them entirely.

The majority of Council members indicated that this year's decline in GDP would be reflected in a fall in the aggregate income in the economy. It was pointed out that by lowering interest rates, NBP had limited the impact of this fall on the financial situation of indebted households and enterprises. Certain members of the Council also indicated that interest rate cuts – given, in their opinion, the limited scope for further cuts of interest rates on deposits – would also contribute to decrease in banks' net interest margins, which might translate into their worse financial performance. They also underlined that lower interest rates would translate into lower household income on bank deposits. Those members also stressed that the NBP interest rate cuts implemented so far had been accompanied by the tightening of banks' credit policy. The majority of Council members underline, however, that the ECB's experience suggested that interest rate cuts had a neutral impact on the banking sector's performance. Moreover, through the positive impact of lower interest rates on economic activity, employment and wages, and finally on debtors' capacity to pay debts, interest rate cuts would limit the scale of credit losses, thus supporting the stability of the banking sector. At the same time, those members observed that the change in interest rates on term deposits would have an appreciable impact on income only in the case of high-value deposits, and would therefore only influence the financial situation of a small group of deposit holders.

Council members stressed that in April annual CPI growth had considerably declined, with a fall in the general price level in month-on-month terms. This was accompanied by further deflation of producer prices. The majority of Council members were of the opinion that considering the expected subdued economic activity globally and in Poland and lower commodity prices in the global market, inflation would further decline in the coming months. In view of the above, the majority of Council members expressed the opinion that despite NBP's monetary policy easing in the recent period, there was still a risk of inflation falling below the NBP inflation target in the monetary policy transmission horizon. At the same time, certain members of the Council pointed out that price growth might increase in subsequent quarters which, in their opinion, might be driven by a rebound in consumption after the pandemic, higher food prices resulting from the likely agricultural drought and growing prices of intermediate goods driven by deglobalisation.

The majority of Council members judged that considering the significant scale of the economic downturn and the prospects of lower economic activity in the coming quarters than before the pandemic and, consequently, the persisting risk of inflation falling below the NPB inflation target in the medium term, NBP interest rates should be further cut at the current meeting. Those members pointed out that such a decision would directly contribute to further reductions in instalments of variable rate loans taken out by enterprises and households. Lower loan servicing costs will mitigate the negative impact of the pandemic on the financial situation of those entities. As a result, the interest rate cut will also limit the scale of insolvency of enterprises, will contribute to a lower rise in unemployment, and will limit related secondary effects of the pandemic. Thus, the interest rate cut will improve the medium-term outlook for the domestic economy and – through the positive impact on the financial situation of debtors – will strengthen the stability of the financial system. The negative impact of the pandemic on economic activity will also be mitigated by the reduced – as a result of lower interest rates – yields on Treasury bonds and costs of public debt servicing  making more room for the necessary fiscal stimulus programmes. Furthermore, the interest rate reduction will limit the risk of a further appreciation of the Polish zloty against the main currencies, which would strengthen in procyclical fashion the negative impact of the sharp fall of external demand on exporters' income and, consequently, negatively affect activity and employment in the Polish economy. As a result, and also given the expected low economic activity and price growth abroad, further appreciation of the zloty would increase the risk of deflation, which along with higher unemployment than before the pandemic would be detrimental to macroeconomic stability. The majority of Council members pointed out that the interest rate cut, while supporting economic activity through all the above mentioned channels, would limit the risk of inflation falling below the NBP inflation target in the monetary policy transmission horizon.

Certain members of the Council expressed the opinion that the NBP interest rates should be kept unchanged at the current meeting. Those members expressed the opinion that such a decision was supported by the possible rise in price growth in the coming quarters. Those members also observed that given the heightened uncertainty about the economic outlook, another interest rate cut would not stimulated lending in the economy. At the same time, such monetary easing would contribute to rising consumer and asset prices, lowering interest rates on deposits and a rise in fees charged by banks.

The Council members underlined that NBP would continue to purchase Treasury securities and debt securities guaranteed by the State Treasury 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 market conditions.

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

The majority of Council members pointed out that all the measures taken by NBP reduced the negative economic consequences of the pandemic, by limiting the scale of slowdown 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 rapid recovery in economic activity after the pandemic ends. NBP's measures reduce the risk of inflation falling below the NBP inflation target in the medium term and, through the positive impact on the financial situation of borrowers, they contribute to the strengthening of the financial system stability.

At the meeting a motion was submitted to lower the reference rate by 0.40 percentage points, i.e. to the level of 0.10% and set the other interest rates at the following levels: 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%. The motion passed.

The Council set the NBP interest rates as follows: 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%

Publication date: 18 June 2020