Minutes of the Monetary Policy Council decision-making meeting held on 16 June 2020

While discussing the current economic situation, Council members pointed out that the Covid-19 pandemic contributed to a fall in global economic activity, including a recession in the economies of Poland's major trading partners. In particular, the April data showed a strong slump in global activity. It was emphasised that this was accompanied by a worsening situation in the labour market and a marked deterioration in consumer and business sentiment. At the same time, Council members indicated that in the recent period, as many countries were easing the containment measures, sentiment was gradually improving.

Referring to the outlook for the global economy, it was pointed out that according to the current forecasts, in the second half of 2020 the global economy will rebound, although the level of activity will be lower than before the pandemic. In this context, attention was drawn, on the one hand, to the downward revision of the ECB's forecasts for euro area GDP growth in 2020 and the subsequent years, and, on the other hand, to the initiative to set up a Recovery Fund at the EU level to help boost activity in the EU. It was pointed out that the proposed value of the fund was significant, yet there was significant uncertainty about the timing of its launch.

It was pointed out that the main risk factors for the fast return of the global economy to the pre-pandemic level continued to include a renewed rise in Covid-19 cases, mounting geopolitical tensions, and primarily, the possible long-lasting impact of the pandemic on economic decisions regarding consumption and investment. All these factors contribute to considerable uncertainty about the timing and robustness of the recovery in the global economy in the coming quarters.

Council members pointed out that faced with the collapse in economic activity in March and April, many countries had undertaken unprecedented fiscal measures aimed at reducing the scale of the decline in incomes of households and businesses, as well as stimulating economic activity. It was also pointed out that fiscal stimulus packages in most countries were accompanied by monetary policy easing, which involved interest rate cuts and asset purchases. Some members of the Council indicated that certain central banks, including the ECB, whose main interest rate had been negative for many years, were still announcing their readiness to lower interest rates. It was emphasised that further monetary policy easing by the ECB in the recent period was the result of extending and increasing the scale of asset purchases. The Federal Reserve Bank of the United States had also extended asset purchases and announced it would use any possible tools to support the US economy. It was noted that the measures undertaken by the major central banks of the developed countries along with the fiscal stimulus programmes launched in those economies had a positive impact on the financial market sentiment, thus contributing to strengthening of emerging economies' currencies.

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

Members of the Council stressed that in the recent period the decline in the prices of some commodities had come to a halt, yet they were still markedly lower than at the beginning of the year. In particular, oil prices– despite having increased in the past few weeks – remained markedly lower than before the outbreak of the pandemic. Certain members of the Council judged that in the recent period oil prices had been affected by fundamental factors connected with the decline in economic activity and the fact that it was expected to recover only gradually in the subsequent quarters, as well as by the policy of the OPEC+ countries. Council members pointed out that the prices of major commodities were pushing down inflation, including in Poland's main trading partners. At the same time, some Council members indicated that the strong decline in price growth observed in many countries was driving up real interest rates despite monetary policy easing in those economies.

In Poland, data on economic conditions in April showed a strong slump in economic activity, a decline in wages and employment in the enterprise sector and weak consumer and business sentiment. It was also pointed out that the negative impact of the pandemic on employment was relatively small as strong protective measures had been taken, aimed at protecting jobs and subsidizing the income of employees and the companies employing them. It was observed that the main adjustments in the labour market still involved the reduction of working hours, the retirement of employees and more frequent use of sickness or care allowance. The Council emphasised at the same time that the gradual lifting of pandemic-related restrictions started in May and continuing in the recent weeks had translated into a certain improvement in sentiment and would revive economic activity in the subsequent weeks.

Council members expected that the rebound in economic activity – besides the likely further lifting of pandemic-related restrictions – would also be supported by economic policy measures, including NBP's monetary policy easing, which limits the scale of decline in employment, supporting household income and the financial situation of enterprises. In the context of the expected economic recovery, some members of the Council also drew attention to the important role played by Poland's investment in infrastructure. Certain members of the Council also observed that Poland had a chance to recover relatively quickly from the recession. At the same time it was noted that the expected economic recovery might be dragged down by the uncertainty about the consequences of the pandemic, lower incomes and weaker business sentiment than in the previous years. The majority of Council members emphasised that the pace of economic recovery might also be curbed by the lack of significant adjustment of the zloty exchange rate to the global shock caused by the pandemic and NBP's monetary policy easing. In this context it was observed that NBP's monetary policy should limit the risk of zloty appreciation against the main currencies, which would pro-cyclically enhance the negative impact of the sharp decline in external demand on exporters' income, thus adversely affecting activity and employment in the Polish economy. As a result, and taking into account the expected weak activity and low price growth abroad, the

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

appreciation of the zloty would increase the risk of deflation, which combined with a higher unemployment rate than before the pandemic would be detrimental to macroeconomic stability.

Council members emphasised that annual CPI inflation had declined in May to 2.9%, falling over three months by 1.8 percentage points. Some members of the Council observed that despite the strong decline in the total expenditure on services, their annual price growth remained relatively high. This pointed to a certain bounce-back of demand after some of the restrictions imposed on the service sector had been eased and might result from the growing operating expenses of this sector under the new sanitary regime. At the same time – in the opinion of those members of the Council – amid recession, sales in the service sector would probably remain subdued in the coming quarters. It was pointed out that the decline in inflation was accompanied by further deflation of producer prices. In turn, certain members of the Council observed that the majority of core inflation measures remained at an elevated level, and inflation expectations, despite having declined in the recent period – still suggested that consumers perceived inflation as heightened.

The majority of Council members were of the opinion that considering the expected subdued economic activity globally and in Poland, low forecast inflation abroad and relatively low commodity prices in the global market, inflation would be low in the subsequent years. At the same time, certain members of the Council upheld the opinion that price growth might be boosted 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.

Council members pointed out that NBP's measures taken so far had contributed to ease financing conditions in Poland. In particular it was emphasised that interest rate cuts had translated into lower expenses of indebted enterprises and households, supporting their budgets. It was pointed out that lower loan instalments provide more room for other kinds of spending, boosting demand and helping debtors to timely meet their payment obligations, thus being conducive to higher employment in the economy. Interest rate cuts translate also into lower yields on government bonds, which reduces the costs of public debt servicing. It was also emphasised that this effect was significantly reinforced by the asset purchase programmes in place. Thanks to ensuring liquidity in the market of the purchased assets – which is a direct result of NBP's intervention in this market – it is possible to finance anti-crisis measures without excessively increasing their costs. Moreover, NBP also launched the bill discount credit which allows the refinancing of corporate loans on very favourable conditions.

The Council members argued that NBP's measures would lead to lower unemployment, fewer bankruptcies among Polish enterprises and finally lower risk not only of inflation running below the target, but also of deflation, which would be detrimental to the entire economy, including to the financial system. Some members of the Council emphasised that the reduced credit risk and the ensuing lower credit losses for commercial banks as a result of NBP’s measures were very important factors which should be considered when assessing the effects of monetary policy on the economy. At the same time, certain members of the Council pointed out that interest rate cuts exerted a downward pressure on bank interest margins, which might prompt banks to increase their charges. They also emphasised that as households’ income on bank deposits was reduced as a result of lower interest rates, households would seek other, riskier forms of investment. Other members of the Council judged that a certain reallocation of savings – in line with households’ preferences as regards the accepted risk-to-profit ratio – might be favourable for the economy. Referring to the lending policy of commercial banks, these members emphasised that it was affected by many factors, yet NBP’s monetary policy was clearly acting against the procyclical tightening of banks’ lending policy.

The Council members were of the opinion that following significant interest rate cuts in the previous months and the launch of asset purchases, the present meeting should keep the NBP interest rates unchanged and continue to pursue NBP’s remaining measures. It was pointed out that NBP’s monetary policy easing mitigated the negative 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 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 the stability of the financial system.

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