Minutes of the Monetary Policy Council decision-making meeting held on 14 July 2020

While discussing the current economic situation, the Council members drew attention to the fact that the Covid-19 pandemic had contributed to a fall in global economic activity. At the same time, it was underlined that data for the recent period indicated that along with the gradual easing of the containment measures, sentiment in many economies had improved and economic activity had started to recover. It was judged that the economic activity rebound – after a sharp fall – stemmed partly from resumption of previously suspended business activity and from the realisation of deferred consumer demand. It was underlined that economic activity growth would also be supported by the fiscal measures introduced in many economies as well as the accompanying easing of monetary policy, including the interest rate cuts and asset purchases. It was noted that these measures would mitigate the impact of the pandemic on the financial situation of companies and, as a result, on the situation in the labour market.

Referring to the global economic outlook, it was pointed out that current forecasts indicated a further improvement in economic conditions in the second half of 2020. The majority of Council members judged that economic activity growth in the coming months might be slower than immediately after lifting of the containment measures. They drew attention to the fact that forecasts predicted only a gradual return to the pre-pandemic activity level. Council members also underlined that increased uncertainty persisted regarding the pace and robustness of the recovery in the global economic conditions in the coming quarters. The most important factors of uncertainty included the further development of the epidemic situation around the world, as well as the scale of adjustment of the enterprise sector and labour market to the potential termination of the economic stimulus programmes. At the same time it was emphasised that so far the major central banks had not signalled the possibility of reducing the scale of monetary expansion and financial market participants were not expecting a tightening of monetary policy for many quarters.

The recent weakening of corporate and household pessimism was accompanied in recent weeks by some improvement in global financial markets sentiment. At the same time, the prices of some commodities rose, remaining, however, at significantly lower levels than at the beginning of the year. In particular, despite a slight increase, oil prices remained low, as a result of – according to certain Council members – the decline in demand for this commodity following the slump in global economic activity as well as the announced termination of cooperation on limiting oil production between Russia and Saudi Arabia. Council members emphasised that low commodity prices, along with decrease in economic activity, were contributing to inflation remaining at low levels in many countries, including Poland's major trading partners.

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

In Poland, incoming information suggests that following an earlier sharp deterioration of economic situation, in the recent period there had been a gradual improvement in sentiment and a recovery in economic activity. It was pointed out that in May – as some of the pandemic-related restrictions were lifted – a sharp month-over-month rise was recorded in retail sales and industrial output. At the same time, the majority of Council members observed that activity remained lower than a year ago and assessed that the rate of recovery might slow down in the coming months. It was also underlined that the still weakened economic activity was having a negative impact on the labour market situation, which was indicated by a further, although limited, fall in employment and a marked decline in wage growth in enterprises.

Council members judged that in the coming months economic activity could be expected to recover further. It was pointed out that such a scenario was also indicated by the results of NBP's July projection. The opinion was expressed that domestic activity would be supported by an improvement in the economic situation in the external environment of the Polish economy and by economic policy measures, including the easing of NBP's monetary policy. It was judged that economic growth in 2020 Q3 might be boosted by increased consumption expenditure due to a significant increase in the number of consumers spending their vacation in Poland.

At the same time, the majority of Council members expressed the opinion that, as indicated by NBP's July projection, the improvement in the economic situation in the coming quarters would only be gradual. These Council members pointed out that the scale of the expected recovery may be limited by uncertainty about the consequences of the pandemic, lower incomes and weaker sentiment than in previous years, as well as the lack of a significant adjustment of the zloty exchange rate to the global shock caused by the pandemic and NBP's monetary policy easing. Certain Council members were of the opinion that economic growth might be slower than indicated by the July projection. According to these Council members, GDP growth would be limited by the likely increase in precautionary savings amid an expected decline in household income growth and by still weakened investment demand. In turn, certain Council members judged that the economic recovery might proceed faster than assumed in the projection due to the positive impact on GDP of large infrastructure projects.

According to the Statistics Poland (GUS) flash estimate, CPI inflation in Poland stood in June at 3.3% y/y. The majority of Council members judged that inflation growth in June was temporary and probably resulted from the adjustment of service prices to an increased demand – boosted by the realisation of purchases that had been deferred while the pandemic-related restrictions were in force – as well as the introduction by some service providers of a so-called sanitation charge. These members expressed the opinion that, as indicated by NBP's July projection, in the coming months price growth would most likely decline. The significantly lower wage growth than in previous years, the expected growth in the unemployment rate, intensifying price competition between companies amid weakened demand, and the low inflation forecast abroad would contribute to lower inflation. According to these Council members, consumers and enterprises inflation expectations, which had recently declined, also pointed to a likely decrease in inflation later in the year.

However, certain Council members judged that inflation might be higher than indicated in NBP's July projection. These Council members drew attention to the recent elevated readings of inflation excluding food and energy prices, judging that core inflation would also remain relatively high in the coming months. They pointed out that the realisation of purchases deferred while the pandemic restrictions were in force, as well as the significant increase in administered prices and – potentially – electricity prices, would contribute to faster price growth. In the opinion of these Council members, inflation might additionally be increased by higher food prices due to a likely agricultural drought and – in the long term – by higher prices of intermediate goods the possible deglobalisation. Moreover, these Council members judged that despite a slight decline, inflation expectations of consumers and enterprises remained elevated.

The Council members pointed out that NBP's measures taken so far had contributed to an easing of the financing conditions in Poland. In particular it was emphasised that interest rate cuts had translated into lower expenses of indebted companies and households, supporting their budgets. It was also judged that the NBP interest rate cuts were reflected in lower yields on government bonds. It was underlined that this effect was boosted by the asset purchase programmes conducted by NBP. However, certain Council members emphasised that in response to the reduction in 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 amid a rise in savings of some households due to the pandemic led to a significant increase in current deposits at the expense of term deposits and to depositors seeking higher-risk investment. Moreover, certain Council members underlined that the monetary policy easing had contributed to a reduction in short-term interest rates to a greater extent than long-term rates.

The majority of Council members judged that due to their positive impact on the financial situation of indebted companies and households, the interest rate cuts would support the stability of the banking sector. However, certain Council members emphasised that they might lead to a deterioration in banks' interest income. These Council members also drew attention to the fact that banks might attempt to improve their financial results by increasing fees and commissions.

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

Publication date: 27 August 2020

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