Minutes of the Monetary Policy Council decision-making meeting held on 7 October 2020

The Council members observed that incoming data confirmed the recovery in global economic activity in 2020 Q3, following a sharp decline in global GDP in Q2. It was pointed out that this was accompanied by a rise in international trade. The earlier easing of epidemic restrictions in many economies, leading to realisation of pent-up demand, combined with the implemented fiscal measures and the accompanying easing of monetary policy were pointed out as factors conducive to improved economic conditions. However, the Council members emphasised that despite the recovery, economic activity in most countries remained weaker than before the onset of the pandemic, and in some economies – including in the Euro area – signs of a slowdown in the recovery had appeared.

At the same time, the Council members assessed that the recently observed surge in the number of COVID-19 cases worldwide heightened the uncertainty about the pace and robustness of the global recovery. It was observed that the resurgence of the pandemic inclined some governments to restore some of the restrictions – although, so far, milder ones than those introduced in response to the first wave of the pandemic – which, together with the flagging sentiment of economic agents would have a negative impact on economic activity.

It was observed that the rise in the number of COVID-19 cases also contributed to deteriorating sentiment in international financial markets, which was reflected in a weakening of emerging market currencies, a decline in equity prices and a decrease in the prices of some commodities. It was emphasised that oil prices remained significantly lower than in previous years. In the opinion of certain Council members, this resulted mainly from the reduced demand for this commodity amid weakened global economic activity. At the same time, in the opinion of those Council members, the scale of the decrease in oil prices was curbed by the reduced supply of this commodity in connection with the extension by the OPEC+ countries of their agreement to cut oil production.

The Council members emphasised that in the face of weakened economic activity in many countries and amid the relatively low prices of some commodities, inflation in the global economy remained low. It was observed that price growth had recently slowed down in many countries. In the euro area, price growth had been running below zero for two months, and available forecasts suggest that it would also be negative in the subsequent months.

The Council members emphasised that given the above conditions, the major central banks were pursuing highly expansionary monetary policy and signalling their willingness to ease it even further. It was assessed that considering such announcements, interest rates in many economies, including the euro area, would remain very low also in the coming years.

In Poland, incoming data point to a recovery in 2020 Q3, following a marked – although shallower than in most European countries – decline in GDP in 2020 Q2. Nevertheless, despite a substantial increase in economic activity, it remains lower than before the pandemic. The Council members underlined that the initially strong rebound in economic activity resulted in part from the restored activity of some industries and the realisation of households' deferred demand. Yet along with the weakening impact of those factors, the pace of the recovery in activity slowed down, as indicated by data on production and retail sales as well as the readings of economic climate indicators. Certain Council members drew attention to the fact that economic activity was supported by the sustained good situation in foreign trade, reflected in a large surplus in the trade in goods account of the balance of payments. It was emphasised that the situation in the labour market had not significantly changed in recent months. The stabilisation in the unemployment rate was coupled with a rise in average employment in the corporate sector in July and August compared to the previous months, yet this rise stemmed mainly from the return of employees from holidays and care leave. At the same time, wage growth remained significantly lower than in previous years.

The Council members assessed that the recovery might be expected to continue in the coming months, even though uncertainty in this regard had increased due to the resurgence of the epidemic and the risk of a tightening of epidemic restrictions. The recovery will continue to be supported by the policy measures taken so far, including the easing of monetary policy by NBP. Some Council members expressed the opinion that economic growth would also be supported by publicly funded infrastructure projects, which will also stimulate the activity of private enterprises. At the same time, in the opinion of Council members, the recently observed marked rise in COVID-19 cases may contribute to a new deterioration in household sentiment and a reduction in their propensity to consume. In the opinion of some Council members, downward pressure on consumption may also come from possible more pronounced adjustment of employment occurring with expiring firms' obligations related to the use of the assistance under anti-crisis shield. The pace of economic recovery may also be curbed by the potential weakening of economic conditions in the external environment of the Polish economy resulting from the worsening epidemiological situation abroad, and – in the opinion of most Council members – due by the absence of a substantial and more permanent adjustment of the zloty exchange rate to the global shock caused by the pandemic and the easing of NBP's monetary policy.

When referring to price developments, it was pointed out that according to the Statistics Poland flash estimate inflation in Poland was running at 3.2% y/y in September. Some Council members emphasised that price growth remained consistent with the NBP inflation target. They observed that inflation readings continued to be boosted by the rises in administered prices introduced at the beginning of 2020, and inflation excluding those prices was running below 2.5% They highlighted the continued negative producer price growth. In turn, certain Council members emphasised that core inflation and services price growth probably continued to run at an elevated level.

The majority of Council members judged that price growth would probably stabilise in the coming months, and would decline significantly at the beginning of 2021. These Council members argued that the persistence of the negative output gap, weakened wage pressure due to the higher level of unemployment, and the absence of inflationary pressure abroad would contribute to a decline in inflation next year. They emphasised that due to the absence of pro-inflationary macroeconomic factors, price growth in 2021 would run at a moderate level, even in the event of regulatory factors boosting it.

However, certain Council members were of the opinion that in the coming quarters the price growth might remain close to the current level. These Council members judged that the persistence of such price growth would mainly be caused by factors beyond the control of monetary policy, including regulatory factors and possibly the process of deglobalisation. According to these Council members, inflation would also be boosted next year by the announced increase in the minimum wage, which may also result in an upward adjustment of the wages of higher earners.

The Council members observed that the measures taken by NBP so far had contributed to an easing of the financing conditions in Poland, which translated into both a decline in costs of obtaining funding by private entities, as well as resulted in savings for indebted households and firms. It was underlined that interest on new consumer and housing loans, as well as on corporate loans, had declined by a similar or greater extent than the NBP reference rate. Some Council members pointed out that although this was accompanied by a decline in interest on deposits, it was smaller than in the case of loans. Moreover, these Council members underlined that the measures taken by NBP – both the interest rate cuts and the asset purchases – were contributing to a decline in bond yields, leading to a reduction in the costs incurred by taxpayers as a result of the implementation of the anti-crisis measures.

Certain Council members expressed the opinion that the NBP interest rate cut had led to an increase in current deposits at the expense of term deposits and had prompted the banks to increase their fees. These Council members also underlined that despite the lower interest on loans, their availability might be limited by banks tightening their credit policy. In this context, they drew attention to the continued decline in growth in lending to the non-financial sector.

The Council members were of the opinion that 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, supported the economic recovery and reduced the risk of a decline in inflation below the NBP inflation target in the medium term. 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%.

Publication date: 10 November 2020