Minutes of the Monetary Policy Council decision-making meeting held on 6 November 2020

During the meeting the Council members pointed out that after a sharp fall in global GDP in 2020 Q2, economic activity rebounded in Q3. The recovery was supported by the earlier relaxation of the epidemic restrictions in many countries, the fiscal measures launched, and the accompanying loosening of monetary policy, including interest rate cuts and asset purchases by central banks. However, it was indicated that economic activity in most countries remained below the levels observed before the onset of the pandemic.

The Council members observed that a sharp rise in COVID-19 infections had been recorded at the beginning of 2020 Q4, and many countries had tightened the epidemic restrictions again. As a result, the economic outlook in the external environment of the Polish economy had deteriorated and uncertainty about the future global economic climate had increased.

In this context, it was observed that GDP might be expected to decline again in many economies in 2020 Q4. Yet it was assessed that the decline would be smaller than in the spring, i.e. during the first wave of the pandemic. It was indicated that the foreign trade channels remained open, and some of the firms had adapted their production processes to the sanitary requirements. As a result, production in industrial companies had not been halted so far, and industry in many economies had remained relatively resilient to the spread of the second wave of the pandemic.

However, the Council members drew attention to the fact that the data as well as consumer and business confidence might lag behind developments of the second wave of the pandemic. At the same time, it was assessed that the services sector, which made the largest contribution to GDP, was the most heavily affected by the pandemic. The sentiment in this sector had already deteriorated sharply in many economies. It was emphasised at this point that the scale of new infections during the autumn wave of the pandemic was several times larger than in the spring. Against this background, current forecasts suggested that economic activity in the major economies of the world, including the United States and the euro area, would remain weak over a longer period and would not return to the pre-pandemic levels in the following year.

Given the above factors, it was pointed out that the highly expansionary macroeconomic policy might be expected to continue. Some Council members emphasised that amid the weaker business conditions, central banks signalled that they would keep interest rates low for a longer time to come, and would continue asset purchases as well.

It was observed that the rise in global infections had contributed to a slump in confidence in international financial markets, which was reflected, among others, in a weakening of emerging market currencies. It was emphasised that due to the flagging economic activity, commodity prices remained markedly lower than at the beginning of the year. Against this background price growth in many countries, including Poland's main trading partners, remained slow.

When referring to the Polish economy, the Council members assessed that the incoming data as of September suggested that there had been a relatively rapid rebound in economic activity. It was pointed out that in September industrial output and retail sales had risen year-on-year, although construction and assembly output had continued to fall. This was accompanied by a certain improvement in the labour market situation, including higher average wage growth in the corporate sector. However, it was emphasised that according to available estimates, in 2020 Q3 economic activity remained lower than a year ago.

The Council members judged that – similarly to many other countries in the world – amid a marked deterioration in the epidemiological situation and the tightening of the epidemiological restrictions, GDP could be expected to decrease in 2020 Q4 compared to 2020 Q3. This was indicated, among others, by the mobility data. According to them, traffic in shopping and entertainment centres had dropped and road traffic had declined. Growth in payment card transactions had also fallen significantly.

While discussing the growth outlook, the Council members pointed out that according to the results of the November projections, GDP would grow in 2021, although the level of economic activity would probably be limited, and output gap would remain negative. It was underlined that in these conditions a rise in unemployment was forecast as well as a fall in the number of persons employed. It was pointed out that high uncertainty persisted about the further development of the pandemic and its impact on the economy. For this reason, GDP growth was mainly subject to downside risk in the November projection. Some Council members expressed the opinion that in the coming quarters a temporary easing and tightening of the sanitary restrictions was possible in response to changes in the epidemiological situation, which would constitute an important condition for the development of the economic climate. Certain Council members argued in this context that some economic entities would limit their activity along with the development of the pandemic, regardless of restrictions introduced.

Taking into account these conditions, the Council members pointed out that in the coming period domestic economic conditions would be held back by a decline in activity in the services sector, restrictions introduced in trade, increased uncertainty about the further course and effects of the pandemic and a deterioration in economic agents' sentiment. It was pointed out that domestic economic activity may also be limited by economic downturn in the environment of the Polish economy as well as by the lack of a visible and more durable zloty exchange rate adjustment to the global pandemic-driven shock and to the monetary policy easing introduced by NBP. At the same time, it was observed that uncertainty about investment developments persisted.

The Council members judged that economic activity would be supported by the economic policy measures, including the easing of NBP's monetary policy. At the same time, it was observed that currently many enterprises were better prepared for the pandemic than they had been in the spring, both with regard to the sanitary regime and the liquidity buffer. The share of online trade had also increased. Moreover, certain Council members pointed out that in the coming months investment might be supported by the implementation of the public infrastructure projects.

When referring to inflation, the Council members emphasised that it remained consistent with the NBP's symmetrical inflation target. In the recent months annual CPI growth had remained close to 3.0% y/y. It was observed that the annual inflation rate in Poland continued to be boosted by the statistical effects of the earlier increases in administered prices, including waste disposal charges and energy prices. In this context it was pointed out that the inflation rate excluding administered prices remained close to 2% y/y.

The majority of the Council members underlined that according to the NBP's November projection, inflation would decline in 2021 and would remain consistent with the NBP inflation target over the projection horizon. The Council members pointed out that the decline in inflation in 2021 would be supported by the persistence of negative output gap as well as the higher level of unemployment, which would hold back growth in unit labour costs. The persistently low price growth in the environment of the Polish economy would also probably dampen inflation. At the same time, it was emphasised that the regulatory factors of a supply-side nature, including the introduction of the so-called capacity charge and the forecast further increase in waste disposal charges would continue to boost inflation. Certain Council members argued that in 2021 price growth would be subject to downside risks.

However, certain Council members judged that inflation might be higher than foreseen in the November projection. These Council members argued that, besides growth in administered prices, price growth might also be boosted by faster growth in service prices. At the same time, they pointed out that the increase in the minimum wage, which might also translate into an adjustment of the wages of people earning more than the minimum wage, might also boost inflation. Certain Council members were also of the opinion that due to a possible faster growth in prices of capital goods than consumer goods, GDP deflator might be higher than CPI inflation.

When discussing monetary policy, the Council members judged that the measures taken by NBP so far had contributed to an easing of the monetary conditions. In particular, interest on loans and Treasury bond yields had declined and currently remain low. This had a positive impact on indebted entities, limited the credit losses of banks and lowered the costs of public debt servicing, thus providing additional room for the necessary fiscal stimulus. It was observed that NBP's monetary policy mitigated the negative economic impact of the pandemic, supported economic activity and stabilised inflation at the level consistent with the NBP's medium-term inflation target. Due to its positive impact on the financial situation of debtors, it was also conducive to the strengthening of financial system stability.

The Council members were of the opinion that the present meeting should keep interest rates unchanged and continue to pursue the NBP's remaining measures.

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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