Minutes of the Monetary Policy Council decision-making meeting held on 2 December 2020

During the discussion the Council members pointed out that 2020 Q3 had seen a strong global economic recovery, although in most countries economic activity had not returned to its pre-pandemic levels. At the same time, it was underlined that in view of the significant increase in the number of new COVID-19 cases in October and November together with renewed tightening of the pandemic restrictions, the economic conditions in many countries had deteriorated. The weakening of economic activity was observed mainly in services, with a limited – so far – impact of intensification of the pandemic on the situation in industry. In Europe the epidemiological situation had deteriorated significantly, and available forecasts indicated that in many European economies – including in the euro area – GDP might decline in 2020 Q4. Moreover, it was underlined that in the coming quarters only a gradual rebound of economic activity could be expected in the euro area, and it might take over 2 years for GDP to return to its pre-pandemic level. At the same time, it was observed that – despite the development of COVID-19 vaccines – uncertainty about the global outlook remained high, mainly driven by the future course of the pandemic.

Information on the results of clinical trials of COVID-19 vaccines had contributed to some improvement in global financial market sentiment. At the same time, global commodity prices remained significantly lower than at the beginning of the year. In particular, oil prices were lower than before the outbreak of the pandemic. According to certain Council members, the persistently low oil prices mainly resulted from a significant fall in demand for this commodity due to the continuing economic downturn in many economies.

In view of the lower commodity prices, as well as the weaker economic activity due to the pandemic inflation, in many countries was running at low levels, and in the euro area price growth had been negative for several months. The majority of the Council members judged that, taking into account the expected economic developments, i.e. only gradual improvement in the economic situation and elevated unemployment, price growth in Poland's immediate environment would most likely remain very low in the coming years.

It was pointed out that in the current conditions the central banks of the major economies were keeping interest rates low and purchasing assets. The majority of the Council members underlined that some of them, i.e. the central banks of England, Australia and Sweden, had recently further eased their monetary policy, and the ECB had indicated that it might ease monetary conditions at its December meeting. These Council members drew attention to the fact that some of the major central banks were communicating their intention to keep interest rates low in the coming years. In the opinion of these Council members, the Polish economy was therefore highly likely to be functioning in conditions of expansionary monetary policy around the world for many quarters to come.

When referring to the Polish economy, it was pointed out that data on GDP in 2020 Q3 confirmed the marked recovery in activity compared to the previous quarter. However, it was observed that despite this improvement in the economic conditions, annual GDP growth remained negative. It was pointed out that the recovery in consumer demand had boosted annual GDP growth. It was underlined that in 2020 Q3 export growth had also picked up, supported by the improvement in the economic situation abroad. At the same time, investment growth was significantly below zero.

The Council members judged that in 2020 Q4 – in view of the significant increase in the number of new COVID-19 cases, the tightening of the pandemic restrictions, and the deterioration in the sentiment of economic agents – GDP had most likely declined again compared to the previous quarter. It was emphasised that the deterioration in the epidemiological situation was having a negative impact mainly on the economic situation in the services sector. The weakening of activity in this sector in recent months was indicated by the fall in retail sales in October as well as the greatly reduced traffic in retail and entertainment centres and the flagging growth in payment card transactions. At the same time, it was emphasized that so far the available data did not suggest a significant weakening of activity in industry. However, some Council members judged that in view of weakened consumer demand in Poland and renewed recession in the euro area, a deterioration in the situation in this sector could not be ruled out in the coming months.

While discussing the situation in the labour market, it was pointed out that employment in the enterprise sector in October had risen again in monthly terms. This was accompanied by a slight decline in wage growth in this sector.

The Council members judged that 2021 would see a recovery in economic activity, although uncertainty remained about its scale and pace. It was emphasised that the economic policy measures taken so far, including the easing of NBP's monetary policy, would have a positive impact on the economic situation. Certain Council members were of the opinion that in the coming quarters economic activity would also be supported by the implementation of public infrastructure projects.

At the same time, the opinion was expressed that the rebound in economic activity in 2021 might be gradual and that GDP might remain lower than before the pandemic. The majority of the Council members underlined that according to the available forecasts the output gap would remain negative in 2021, which – along with the still heightened uncertainty and weaker sentiment of economic agents than in previous years – would hold back investment growth. In turn, in the opinion of these Council members, the forecast rise in unemployment might slow down consumer demand growth. The majority of the Council members once again drew attention to the fact that the pace of the economic recovery could be limited 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 there was still heightened uncertainty about the economic outlook in the coming quarters, and its source continued to be the further course of the pandemic and its impact on the economic situation in Poland and abroad.

When referring to inflation, the Council members pointed out that according to the GUS flash estimate consumer price growth stood at 3.0% y/y in November, i.e. in line with the NBP inflation target. Some Council members also drew attention to core inflation and service price growth persisting at elevated levels. Certain Council members observed that inflation expectations of households and enterprises were heightened. However, other Council members observed that inflation expectations were significantly lower than at the beginning of 2020.

The majority of the Council members judged that in 2021 inflation would be lower than the 2020 average and would run at a level consistent with the NBP inflation target. In the opinion of these Council members, inflation would be curbed by the persistence of the negative output gap and the higher level of unemployment than in 2020. Low price growth in the environment of the Polish economy would probably also act in the same direction. At the same time, the Council members pointed out that regulatory factors, which act as negative supply shocks, including the further rise in electricity prices for households and waste disposal charges, would continue to have a positive impact on inflation in 2021.

Certain Council members judged that in 2021 inflation might be higher than indicated by current forecasts. According to these Council members, apart from regulatory factors, price growth would be also boosted by base effects related to the fading impact of the fall in oil prices in 2020. These Council members expressed the opinion that inflation would also be boosted by the satisfaction of deferred consumer demand. According to these Council members, the large scale of this effect might be indicated by the significant increase in household and corporate deposits in recent months. These Council members also stressed that strong growth of money supply might potentially have a pro-inflationary effect.

While discussing domestic monetary policy, the Council members judged that the measures that NBP had taken so far had contributed to an easing of the monetary conditions. In particular, interest on loans had been lowered, which translated into lower loan instalments – including some of the loans taken out before the outbreak of the pandemic – and an improvement in the financial situation of indebted enterprises and households. The measures taken by NBP also contributed to lowering Treasury bond yields, which reduced the costs of public debt servicing, thus providing additional room for the necessary fiscal stimulus.

Certain Council members also observed that the easing of monetary policy had failed to contribute to a significant recovery in consumer and corporate loans. However, the majority of Council members argued that lower corporate loan growth was the result

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of reduced demand for bank finance in view of the significant scale of public aid obtained in recent months by many economic agents.

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 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 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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