

Warsaw, 17 March 2020

Information from the meeting of the Monetary Policy Council held on 17 March 2020

The Council decided to cut the NBP reference rate by 0.5 percentage points, i.e. to 1.00%. At the same time, the Council set the remaining NBP interest rates at the following levels:

- lombard rate at 1.50%;
- deposit rate at 0.50%;
- rediscount rate at 1.05%;
- discount rate at 1.10%.

Moreover, the Council decided to decrease the required reserve ratio from 3.5% to 0.5% and to increase the remuneration of the required reserves from 0.5% to the reference rate level.

At the beginning of the year the global economy grew at relatively slow, albeit stable pace. Due to the spread of coronavirus the global economic outlook has recently substantially deteriorated. Measures introduced in many countries to counteract the further spread of coronavirus, including restrictions imposed on transport and services sector, along with falling consumer and business confidence weaken the current activity in many economies. The latest forecasts indicate an improvement in economic conditions further ahead, although its pace will depend on effectiveness of epidemic containment measures as well as the impact of current disruptions on the economic agent's incomes and sentiment in the longer run.

In these circumstances many countries has announced – apart from measures directly aimed at limiting the spread of the virus – the introduction of fiscal measures to contain economic losses related to coronavirus and temporary suspension of business activity.

Due to the deteriorating outlook and increased uncertainty about the durability of coronavirus economic impact, the financial markets sentiment has also deteriorated in recent days. It has been accompanied by considerable fall in global oil prices.

The major central banks has substantially eased their monetary policy. The US Federal Reserve lowered interest rates, bringing them close to zero, restarted asset purchases and increased the liquidity in the financial market. Due to already negative interest rates, the European Central Bank eased monetary conditions by, inter alia, increasing the scale of liquidity provision and asset purchases. Many other central banks cut interest rates.

In Poland, economic conditions in the first months of the year were relatively favourable. However, coronavirus epidemic, due to its detrimental impact on sentiments, together with measures limiting its' spread – will curtail economic activity in some sectors

in the short run. These effects might be amplified by simultaneous slump in economic activity in many countries. At the same time, further ahead, they will probably be mitigated by stimulus packages introduced in many countries.

Inflation in Poland stood at 4.7% y/y in February 2020. Expected economic slowdown in the nearest future together with the significant fall in global oil prices will contribute to marked decrease in inflation. Consequently, latest forecasts indicate a higher probability of inflation decreasing more quickly in 2020 than anticipated in the March projection and of inflation falling below the NBP inflation target in the monetary policy transmission horizon. In these circumstances, the Council decided to cut the NBP interest rates.

At the same time, in order to limit the risk of current economic disruption weighing on credit supply, the Council cut the required reserve ratio from 3.5% to 0.5% and increased the remuneration of required reserves from 0.5% to the reference rate level.

Moreover, in accordance with *Monetary policy guidelines for 2020*, to limit the risk of tensions in domestic financial market, NBP will provide liquidity to the banking sector using repo transactions. NBP will also purchase government bonds on the secondary market as part of the structural operations that change the long-term liquidity structure in the banking sector and contribute to maintaining the liquidity in the government bond secondary market. Furthermore NBP will offer bill discount credit aimed at refinancing new loans granted to economic entities by banks.

In the Council's assessment, all the above-mentioned measures will mitigate the negative economic impact of coronavirus spread, while further ahead they will contribute to recovery in domestic economic activity and will be conducive to inflation running at the level of the NBP inflation target in the medium term.