

Warsaw, 8 April 2020

Information from the meeting of the Monetary Policy Council held on 8 April 2020

The Council decided to cut the NBP reference rate by 0.50 percentage points, i.e. to 0.50%. At the same time, the Council set the remaining NBP interest rates at the following levels:

- lombard rate at 1.00%;
- deposit rate at 0.00%;
- rediscount rate at 0.55%;
- discount rate at 0.60%.

NBP will continue – apart from basic operations – to provide liquidity to the banking sector using repo transactions. At the same time, NBP will purchase government securities and government-guaranteed debt securities on the secondary market as part of the structural operations. The timing and scale of the operations will depend on the market conditions. Furthermore, NBP will offer bill discount credit aimed at refinancing loans granted to enterprises by banks.

The incoming information suggest that COVID-19 pandemic and measures introduced to counteract its further spread contribute to the fast deepening fall in activity in many economies as well as to a very strong deterioration of sentiment. At the same time, global economic growth forecasts, including those for Poland's main trading partners, have been substantially revised downwards. In order to mitigate the negative economic effects of the pandemic and ensure conditions for fast economic recovery after current disruptions abate, many countries introduce wide-ranging fiscal stimulus packages. Chinese economy shows first signs of economic recovery after a strong fall in activity at the beginning of the year.

Many central banks have substantially eased monetary conditions by lowering interest rates, providing liquidity to the banking sector and pursuing asset purchases.

Recent forecasts indicate that after the abatement of the current disruptions the global economic conditions should improve, supported by fiscal measures and monetary easing. At the same time, the pace and scale of the improvement will depend on the impact of disruptions on economic agents' income and sentiment in the longer run.

In the financial markets – due to the globally deteriorating economic outlook – risk aversion remains high leading to increased price volatility of many assets and tightened financial conditions. At the same time, global oil prices have fallen significantly since the beginning of the year, accompanied by decreasing prices of some food commodities.

In Poland, economic conditions in the first months of the year were relatively favourable. However, measures aimed at limiting the spread of epidemic contribute to the reduction of economic activity. In the short run, the scale of activity drop could be very sizable. This will be accompanied by a deteriorating situation in the labour market and a fall of disposable income of households. Further ahead, economic activity should, however, gradually recover, supported by fiscal measures introduced in Poland and many other countries as well as strong macroeconomic fundamentals of the Polish economy related to its low internal and external indebtedness and high competitiveness together with geographical and sectoral diversification of Polish exports.

Expected global economic downturn together with lower commodity prices and weaker domestic demand will contribute to a marked deceleration of price growth. Consequently, despite recent monetary policy easing introduced by NBP, the risk of inflation falling below the NBP inflation target in the monetary policy transmission horizon prevails.

Considering the above-mentioned circumstances, the Council decided to ease monetary conditions. Thus, the Council cut the NBP interest rates further.

NBP will continue – apart from basic operations – to provide liquidity to the banking sector using repo transactions. NBP will purchase government securities and government-guaranteed debt securities on the secondary market as part of the structural operations. These operations are aimed at changing the long-term liquidity structure in the banking sector, ensuring the liquidity in secondary markets for the purchased securities and enhancing the impact of the NBP interest rate cuts on the economy, i.e. strengthening the monetary policy transmission mechanism. The timing and scale of the operations will depend on the market conditions.

Furthermore NBP will offer bill discount credit aimed at refinancing loans granted to enterprises by banks.

The measures undertaken by NBP are aimed at easing financing conditions in the economy and mitigating the negative economic impact of pandemic, thus being conducive to maintaining macroeconomic and financial stability. Those measures will also contribute to recovery in domestic economic activity after the abatement of current disturbances. Consequently, they will reduce the risk of inflation falling below the NBP inflation target in the medium term.