

Warsaw, 28 May 2020

Information from the meeting of the Monetary Policy Council held on 28 May 2020

The Council decided to cut the NBP reference rate by 0.40 percentage points, i.e. to 0.10%. At the same time, the Council set the remaining NBP interest rates at the following levels:

- **lombard rate at 0.50%;**
- **deposit rate at 0.00%;**
- **rediscount rate at 0.11%;**
- **discount rate at 0.12%.**

NBP will also continue to 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 data confirm that the COVID-19 pandemic contributed to a fall in global economic activity. In the economies of Poland's main trading partners this was mirrored by falling GDP in 2020 Q1 as well as a significant drop in industrial production and retail sales in April. It was accompanied by deteriorating labour market situation and sharp weakening of consumer and business sentiment. In order to mitigate the negative economic effects of the pandemic, fiscal measures have been introduced to alleviate the fall in households' and enterprises' income as well as to stimulate economic activity. At the same time monetary policy has been eased by – inter alia – lowering interest rates and pursuing asset purchases.

Recent forecasts indicate that in the second half of 2020 global economic conditions should improve, but the level of activity will be lower than before the pandemic. At the same time, there is uncertainty regarding the pace and robustness of the improvement in global economic conditions in the following quarters. As a consequence, the situation in the financial markets remains volatile, although the volatility is being mitigated by monetary policy easing conducted by major central banks.

The weakening of current and expected demand leads to falling prices of many commodities. The prices of energy commodities, as well as some food commodities are lower than at the beginning of the year, contributing – together with weaker economic activity – to slower price growth in many countries, including main trading partners of Poland.

In Poland, economic conditions in the first months of the year were relatively favourable, but GDP growth on an annual basis decelerated. April data point to a significant fall in economic activity, a decrease in wages and employment in enterprises as well as a deterioration of consumer and business sentiment. At the same time inflation declined markedly and the annual change in producer prices was negative.

As the restrictions related to the pandemic are lifted, a recovery in economic activity could be expected. This would be supported by economic policy measures, including monetary policy easing by NBP, that mitigate the fall in employment, supporting incomes of households and financial situation of enterprises. The scale of the expected recovery could be – in turn – curbed by uncertainty regarding the consequences of the pandemic, lower incomes and weaker sentiment of economic agents than in previous years.

Weaker activity in the global economy, including in Poland, together with lower commodity prices in international markets will contribute to a further decrease in inflation. Consequently, 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 cut the NBP interest rates again.

NBP will also continue to 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 NBP monetary policy easing mitigates the negative economic impact of the pandemic, limiting the scale of the economic activity fall and supporting incomes of households and enterprises. Consequently, it alleviates the fall in employment and deterioration of financial situation of enterprises, thus being conducive to quicker recovery after the abatement of the pandemic. The measures undertaken by NBP reduce the risk of inflation falling below the NBP inflation target in the medium term and – due to their positive impact on financial situation of debtors-- are conducive to enhancement of financial system stability.