

Warsaw, 6 November 2020

Information from the meeting of the Monetary Policy Council held on 6 November 2020

The Council decided to keep the NBP interest rates unchanged:

- **reference rate at 0.10%;**
- **lombard rate at 0.50%;**
- **deposit rate at 0.00%;**
- **rediscount rate at 0.11%;**
- **discount rate at 0.12%.**

NBP will continue to purchase government securities and government-guaranteed debt securities on the secondary market as part of the structural open market 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.

Incoming data confirm that following a sharp fall in global GDP in 2020 Q2, economic activity was recovering in Q3. The improvement in the global economic conditions had been supported by the earlier easing of the containment restrictions, the fiscal measures introduced, as well as the accompanying easing of monetary policy, including interest rate cuts and asset purchases by central banks. Despite the rebound, economic activity in most countries remained lower than before the outbreak of the pandemic.

Recently, however, there has been a significant increase in the number of COVID-19 infections. As a consequence, many countries have once again tightened the pandemic restrictions. At the same time uncertainty about the further course of the pandemic as well as future economic conditions in the global economy has increased.

The growing number of new COVID-19 cases has also contributed to a deterioration in global financial market sentiment, mirrored, among others, in a depreciation of emerging market currencies. Global commodity prices remain significantly lower than at the beginning of the year. Along with weaker economic activity, this has contributed to inflation staying at low levels in many countries, including Poland's main trading partners.

In Poland, the incoming data also confirm a strong rebound in economic activity in 2020 Q3, after a significant fall in GDP in 2020 Q2. This is indicated by, in particular, data on retail sales and industrial output in September. This was accompanied by a certain

improvement in the labour market situation, including higher wage growth in the corporate sector. At the same time, inflation in October – according to the Statistics Poland flash estimate – decreased to 3.0% y/y (compared to 3.2% y/y in September).

The sharp increase in the number of new COVID-19 infections in the recent period and the tightening of the pandemic restrictions will contribute to a further deterioration in the economic conditions in 2020 Q4. In particular, domestic economic conditions will 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. Domestic economic activity may be also 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. In turn, the fall in the activity will be limited by the economic policy measures, including the easing of NBP's monetary policy.

The Council became acquainted with the results of the November projection of inflation and GDP based on the NECMOD model. In line with the projection prepared under the assumption of unchanged NBP interest rates and taking into account data available until 4 November 2020, there is a 50-percent probability that the annual price growth will be in the range of 3.4–3.5% in 2020 (against 2.9–3.6% in the July 2020 projection), 1.8–3.2% in 2021 (compared to 0.3–2.2%) and 1.6–3.6% in 2022 (compared to 0.6–2.9%). At the same time, the annual GDP growth – according to this projection – will be with a 50-percent probability in the range of -4.1 – -3.0% in 2020 (against -7.2 – -4.2% in the July 2020 projection), 0.8–4.5% in 2021 (compared to 2.1–6.6%) and 3.8–7.8% in 2022 (compared to 1.9–6.0%).

NBP will continue to purchase government securities and government-guaranteed debt securities on the secondary market as part of the structural open market operations. These operations are aimed at changing the long-term liquidity structure in the banking sector, ensuring the liquidity in the 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.

NBP's monetary policy mitigates the negative economic impact of the pandemic, supports economic activity and stabilises 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 is also conducive to the strengthening of financial system stability.

The Council adopted the *Inflation Report – November 2020* as well as the *Opinion on the 2021 Draft Budget Act*.