

Warsaw, 14 July 2020

Information from the meeting of the Monetary Policy Council held on 14 July 2020

The Council decided to keep the NBP reference rate unchanged at the level of 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 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 the Covid-19 pandemic contributed to a fall in global economic activity, including recession in the economies of Poland's main trading partners. At the same time, along with a gradual easing of the containment measures, sentiment has improved in many economies, accompanied by a recovery in economic activity. Current forecasts indicate that the second half of 2020 will see a further improvement in the global economic conditions, although the level of activity will be lower than before the pandemic. Uncertainty remains regarding the pace and robustness of the recovery in the global economic conditions in the coming quarters.

A further improvement in the global economic conditions will be supported by the fiscal measures introduced as well as the accompanying easing of monetary policy, including the interest rate cuts and asset purchases.

Recent weeks have seen a certain improvement in sentiment in global financial markets. This was accompanied by an increase in the prices of some commodities, which, however, remain significantly lower than at the beginning of the year. Along with weaker economic activity, this contributed to the inflation staying at low levels in many countries, including Poland's main trading partners.

In Poland, incoming information suggests a gradual improvement in sentiment and a recovery in economic activity, which, however, remains lower than before the pandemic. This is accompanied by a further, although limited, fall in employment and a marked

decline in wage growth in enterprises. According to the Statistics Poland (GUS) flash estimate, inflation stood at 3.3% y/y in June.

A further recovery in economic activity may be expected over the coming months. This will be supported by an improvement in the economic situation in the environment of the Polish economy and the economic policy measures, including the easing of NBP's monetary policy. At the same time, the scale of the expected recovery in activity may be limited by uncertainty about the effects of the pandemic, lower incomes and weaker sentiment of economic agents than in previous years. The pace of the economic recovery could also be limited by the lack of visible zloty exchange rate adjustment to the global pandemic-driven shock and to the monetary policy easing introduced by NBP.

The Council became acquainted with the results of the July projection of inflation and GDP, prepared under the assumption of unchanged NBP interest rates. The July projection takes into account data and information published up to 30 June 2020. In line with the July projection based on the NECMOD model, there is a 50-percent probability that the annual price growth will be in the range of 2.9–3.6% in 2020 (against 3.1–4.2% in the March 2020 projection), 0.3–2.2% in 2021 (compared to 1.7–3.6%) and 0.6–2.9% in 2022 (compared to 1.3–3.4%). At the same time, the annual GDP growth – according to this projection – will be with a 50-percent probability in the range of -7.2 – -4.2% in 2020 (against 2.5–3.9% in the March 2020 projection), 2.1–6.6% in 2021 (compared to 2.1–3.9%) and 1.9–6.0% in 2022 (compared to 1.8–3.7%).

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 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 also continue to 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 fall in economic activity and supporting incomes of households and enterprises. Consequently, it alleviates the fall in employment and deterioration in financial situation of enterprises, thus being conducive to quicker economic 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.

The Council adopted the *Inflation Report – July 2020*.