Minutes of the Monetary Policy Council decision-making meeting held on 3 February 2021

During the discussion the Council members pointed out that – as COVID19 infections increased and sanitary restrictions were tightened again – the global recovery had slowed down in 2020 Q4. In particular, attention was drawn to the fact that according to preliminary data, GDP in the euro area had fallen in that period, although less than in 2020 Q2, and in January 2021, faced with the risk of another wave of infections, some European countries had extended or tightened the existing pandemic restrictions. It was pointed out that the extension or tightening of the restrictions had adversely affected the sentiment of economic agents and might delay and reduce the scale of the expected economic recovery in the external environment of the Polish economy. At the same time, it was underlined that although a downturn in the services sector continued, the situation in industry and international trade was relatively good.

The Council members stressed that inflation in the global economy remained low. At the same time, certain Council members observed that in January 2021 there had been a marked increase in inflation in Germany. It was pointed out that this had largely resulted from the expiry of the temporary cuts in VAT rates in that country. In the context of price developments in the external environment of the Polish economy, attention was drawn to the rise in global oil prices in recent months. The increase in these prices was driven by an improvement in sentiment due to the launch of the vaccination programmes and the announcement of an additional stimulus package for the US economy, which had boosted expectations regarding a rebound in global economic activity at the beginning of 2021. Moreover, it was emphasised that countries associated in OPEC+ were continuing the policy of limiting oil production, counteracting the excessive growth in supply of this commodity, which also translated into higher prices. It was pointed out that in the long term the global supply of oil might be affected, on the one hand, by the likely change in climate policy in the United States, and on the other hand, by the possible easing or lifting sanctions imposed on certain oil producers.

The Council members underlined that the major central banks were continuing their highly expansionary monetary policy, including maintaining low interest rates and purchasing assets on a large scale. In particular, the Council members drew attention to the fact that the Federal Reserve of the United States announced it would conduct an accommodative monetary policy until an improvement in activity was seen in the data, and not only in the forecasts. Furthermore, the Fed had been clearly indicating that it would aim for inflation to exceed its inflation target for some time in the future. The European Central Bank also stressed its commitment to maintain all its current measures, including conducting asset purchases on a large scale and maintaining negative interest rates in subsequent years.

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When referring to the Polish economy, it was pointed out that the rise in COVID-19 infections and the tightening of the epidemic restrictions in 2020 Q4 had had a negative impact on economic activity in this period, which was particularly noticeable in part of the services sector. The Council members indicated that taking into account the preliminary estimate of GDP for 2020 and assuming no revision of GDP data for 2020 Q1-Q3, it could be estimated that in 2020 Q4 there had been another fall in GDP, although its scale was significantly smaller than in 2020 Q2. It was pointed out that the decline in activity had been driven by a fall in consumption and investment. The Council members drew attention to the still lower level of average employment in the enterprise sector than a year earlier, and a rise in the annual growth in average wages in this sector. At the same time, some Council members pointed out that in December there had been an increase in growth in construction and assembly output and industrial output, including in the export sectors.

The Council members judged that according to the current forecasts following the fall in GDP in 2020, in 2021 there would be a recovery in economic activity, which might even be somewhat stronger than earlier estimated. Alongside that, it was pointed out that data from the beginning of the year did not suggest that the recovery had already begun, although the situation in individual sectors varied. The Council members also underlined that the scale and timing of the recovery would depend, above all, on the epidemic situation and the related restrictions. The further course of the pandemic and its impact on the economic situation in Poland and abroad would remain the key sources of uncertainty for the economic outlook in Poland, while it would take time to see the impact of the vaccination process on the pandemic and the economy. At the same time, it was observed that the economic policy measures taken so far, including NBP's monetary policy easing, and in the longer term also funds from the European Union, would continue to have a positive impact on the economic situation.

When discussing price developments, the Council members pointed out that data on inflation in December were evidence that consumer price growth at the end of 2020 was running at a level consistent with the NBP's inflation target, and was close to 2.5%. Some Council members judged that according to current forecasts, in 2021 inflation would rise somewhat compared to December, but despite this it would remain within the band of deviations from the inflation target.

These Council members underlined that the forecast increase in annual CPI would be due to the rise in global oil prices and the base effects in fuel prices. Moreover, as in 2020, inflation would be boosted by regulatory factors, above all by higher electricity prices and waste disposal charges, which are negative supply shocks. These Council members pointed out that regulatory factors would be responsible for over 1 percentage point of inflation. At the same time, the further development of global oil prices remained a risk factor for inflation; however, it was a factor beyond the control of monetary policy.

Certain Council members underlined that due to the significance of oil for price developments in the economy, their pass-through to the remaining consumer prices should be carefully observed. Moreover, these Council members pointed out that inflation might be boosted by the materialisation of pent-up demand and the launch of large infrastructure investments. Certain Council members the risk of an increase in inflation was also evidenced by a rise in producer prices.

When assessing the outlook for economic activity and inflation in Poland in the coming quarters, the Council members drew attention to the significance of the zloty exchange rate. It was underlined that adjustment of the exchange rate was one of the basic mechanisms acting as a shock absorber for the domestic economy. The majority of the Council members reiterated that the lack of a visible and more durable zloty exchange rate adjustment might reduce the pace of the economic recovery. These Council members judged that the interventions in the foreign exchange market conducted since December 2020 – aimed at diminishing pressure on the appreciation of the zloty due to further monetary policy easing by the major central banks – had lowered the risk of a procyclical strengthening of the zloty and enhanced the impact of NBP's monetary policy easing on the economy.

The majority of the Council members also underlined that due to the relatively high share of domestic value added in exports compared to other countries of the region, the depreciation of the zloty would clearly improve the economic situation. It was observed that Polish exports were less import-intensive than in other economies of Central and Eastern Europe and as a result they were more vulnerable to exchange rate fluctuations. Furthermore, the position of Poland in the structure of the global supply chains makes the impact of the exchange rate significant for the competitiveness of the country's producers. These Council members pointed out that the sharp increase in the role of services in Poland's foreign trade had a positive effect on the exchange rate pass-through on GDP growth. Certain Council members expressed the opinion that while the impact of a zloty depreciation on exports growth was positive, currently it was weaker than in the past.

The Council members underlined that NBP's monetary policy easing in 2020 had been accompanied by a decline in bond yields and the full pass-through of cuts in NBP interest rates to interest rates on loans to households and enterprises. In effect, households and enterprises had received significant support, both through measures related to the anti-crisis shields and through a reduction in loan instalments. Some Council members also pointed out that the significant financial resources received by many firms in the form of state aid had driven a strong rise in their deposits, which along with uncertainty about the future economic conditions, had reduced demand for corporate loans. At the same time, certain Council members drew attention to the fact that amid keeping interest rates low – which was accompanied by a decrease in interest rates on deposits – a marked increase in the prices of other assets, including real estate prices, was noticeable.

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While discussing monetary policy, the Council members were of the opinion that at the present meeting interest rates should be kept unchanged and the remaining NBP's measures should be continued.

The majority of the Council members judged that if economic recovery progressed in 2021 and price growth was in line with the inflation target, it would also be advisable to keep interest rates unchanged in the subsequent quarters. At the same time, in the opinion of these Council members, if the economic conditions and outlook were to deteriorate significantly, e.g. due to a new surge in the pandemic, further monetary policy easing might be justified, including by a reduction in the interest rate.

Certain Council members believed that, should further easing of monetary conditions be necessary, a further cut in NBP interest rates would not be advisable and instead additional measures aimed at supporting corporate lending should be implemented.

Certain Council members argued that should a sharp rise in inflationary pressure appear in the coming quarters, it might be advisable to consider raising NBP interest rates in the second half of 2021.

It was observed that NBP's monetary policy mitigated the negative impact of the pandemic, supported economic activity and stabilised inflation at a level consistent with NBP's medium-term inflation target. Due to its positive impact on the financial situation of debtors, it was also conducive to the strengthening of financial system stability.

The Council decided to keep the NBP interest rates unchanged: the reference rate at 0.10%, the lombard rate at 0.50%, the deposit rate at 0.00%, the rediscount rate at 0.11%, and the discount rate at 0.12%.

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