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# Economic Comment

## Another emergency rate cut

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The Monetary Policy Council unexpectedly cut the main reference rate by 40bp to 0.1%, the lombard rate by 50bp to 0.5%, and kept the deposit rate at 0.0%. The move was justified mainly by the risk of inflation going below the NBP target in mid-term. We think that once the rates were trimmed almost to zero, the conventional part of monetary easing is over and the NBP will focus now mainly on asset purchases and providing liquidity to the market.

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This comes as a very surprising move as recent comments of MPC members did not give any clue about such possibility – even Eryk Łon, considered to be the most dovish member of the panel has recently suggested no need for further interest rate reduction. The decision was made at the one-day meeting, which was postponed earlier from the initially planned May 6th. Also, it was the third rate cut in a row, which was not followed by the press conference explaining the move, but only by the release of the statement.

The statement reads that the main argument for the MPC to cut interest rates this time was the risk of inflation decline below the NBP target in the monetary policy transmission horizon. It looks like a really astonishing turn in the MPC's rhetoric as compared to previous months, or even years, when the focus in the communication was much more on economic growth than on inflation. Also, the Council believes that the measures recently taken by the central bank "due to their positive impact on financial situation of debtors – are conducive to enhancement of financial system stability."

To be honest we have some doubts if the inflation rate indeed became suddenly the main argument in the MPC's reaction function. Definitely this would be a highly unconventional approach of the central bank in the middle of the economic meltdown. We also find little guidance regarding the monetary policy outlook in the MPC communication. In our view, after the recent moves the most likely scenario is that the main interest rates will remain on hold at least until the end of this year, or even until the end of 2021. The MPC will also continue the non-conventional monetary easing: purchase of securities and offering bill discount credit – which was affirmed in the statement.

The next meeting of the MPC is scheduled on June 2-3, i.e. in one week time. Given the recent experience, we would not be surprised to see again the last minute changes in the agenda.

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