

## Poland: Rates unchanged, MPC confident in Poland's resilience

Bank Governor Glapiński's high confidence in the resilience of the Polish economy to Covid-19 is excessively high in our view. We are more pessimistic on the coronavirus impact and expect rates to remain flat in 2020 with some downside risk



### Forward guidance unchanged, so far limited Covid-19 impact on the MPC

During the press conference, National Bank of Poland Governor Glapiński reiterated his forward guidance assuming flat rates till the end of the term. He added that the next move would be easing and the odds of this grew, as we signaled in the preview. Still, Covid-19 seems to have a limited impact on his and the MPC stance in the short term.

One of the main reasons behind the Monetary Policy Council's unfavourable approach to easing is the high confidence in the resilience of the Polish economy to the Covid-19 epidemic, which we don't share. We think Covid-19 is riskier than trade wars, given it may undermine eurozone and Polish domestic demand, both of which helped offset the impact of the German manufacturing recession. That makes an impression that the MPC is traditionally backward looking.

Another argument against easing is that rates cuts are a blunt instrument as a remedy for the Covid-19 shock. The NBP also points to the weak transmission from equities to the real economy in Poland, so monetary policy easing aimed at stabilizing equity markets should not be considered. Moreover, he claims that even a coordinated central bank policy action will not sway the NBP to act, at least for now.

## The NBP's GDP projection seems overly optimistic

The NBP presented new economic projections. As expected, we saw a downward revision in GDP for 2020-21 to 3.2% and 3.0% year on year (from 3.6% and 3.3%, respectively), dipping to 2.8% in 2022. In our view, the NBP's forecast of GDP is still too optimistic, and the Covid-19 shock is an additional downside risk, which we estimate at 0.50-1.00 percentage points (not yet included).

The CPI path was revised up in 2020 (from 2.9% to 3.7% YoY), hardly changing in 2021 (from 2.6% to 2.7% YoY). According to the NBP, inflation should move back to the target in 2022 (2.4%). Current CPI projections are above consensus and close to our forecasts (we see a 3.9% YoY average in 2020).

We estimate that a wide outbreak in Poland would lower GDP by 0.50 percentage points. This would mostly affect demand for a wide range of market services such as leisure and restaurants. We have not included this in our forecasts yet, as we are awaiting to see how the outbreak in Poland unfolds (so far only one confirmed case).

## NBP may fine-tune REPO operations to provide on-demand liquidity

Glapiński also hinted that the NBP may fine-tune the REPO operations, which are among the instruments in the so-called confidence package. Those could be on-demand operations, providing liquidity to banks via targeted longer-term refinancing operations. However, he underlined that any such non-standard operations are not needed, since local banks face over-liquidity and insufficient demand for credit is the problem.

The MPC's view on inflation hardly changed – regulatory and external factors are mostly to blame. Without these external shocks, CPI would be under control in his view. The view was explicitly supported by Glapiński and two centrists G.Ancyparowicz and R.Sura present during the conference. The chairman also noted some members changed their stance recently. This would suggest that the three proponents for a hike at the last meeting is no longer the case.

Overall, we expect rates to remain flat in 2020 but see some downside risk.

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