

Poland: Monetary policy unchanged, as expected

The Monetary Policy Council held rates flat and kept the asset purchase programme open. The statement is bearish with regards to 4Q20 and 2021. We have not heard anything new on the credit front as some Council members signaled recently that this is a potential area on which to act



Today's Council decision is no surprise. The market expected that rates would not change in the near future despite the persistence of increased inflation and the lack of prospects for its visible drop.

The statement is bearish with regards to 4Q20 and 2021. The Council underlines that the course of Covid-19 is a key risk for economic activity in the following quarters. The MPC points to a GDP contraction in 4Q20 and then a gradual recovery in 2021. We see -3% year-on-year GDP dynamics in 4Q20 vs the National Bank of Poland's last projection at -6% YoY for 4Q20. Also, we are more optimistic with regards to the 2021 outlook (+4% YoY vs NBP at +3.1% YoY).

The Council pointed out that investments are relatively weak, but the Council has not decided to propose any new measures to support credit. The NBP will continue to keep the bill discount credit

unchanged and the open-ended assets purchase programme. The Council again noted the limited response of the zloty to the loosening of monetary policies, but we expect only verbal interventions to remain.

We see two main easing channels in following months. Firstly, further asset purchases of Polish government bonds and instruments guaranteed by the government. This should support the government relief programme.

Further asset purchases guaranteed by the government are possible

It may also prevent a more pronounced PLN strengthening if the further rise in €/US\$ continues to bolster Central and Eastern European currencies. Purchases of corporate debt are unlikely and impossible on a larger scale due to a shortage of properly rated instruments. The current QE programme is open-ended and theoretically requires no announcement to extend it. But leaving the asset purchase programme opened and an unwillingness to normalise rates soon should help to trim PLN gains.

Secondly, the central bank may try to support credit creation and investment activity more directly. Some MPC members referred to internal discussions on that area. In our view those may include modification of the bill discount credit via extension of its maturity and lower costs, introduction of targeted longer-term refinancing operations, or refinancing of state-guaranteed loans to businesses.

The central bank may try to support credit creation and investment activity more directly

Should the GDP outlook become more optimistic, demand for credit should be unlocked and monetary instruments facilitating credit may work more effectively than now.

Further rate cuts are unlikely. CPI remains persistently high, especially the core component. Moreover, some central bankers recently emphasised that moving rates into negative territory would have very limited positives, while being detrimental to the financial sector. Others stated that negative rates may be downright illegal. As such, the MPC reaction to further PLN gains should be mostly verbal, as QE extension should happen regardless.

In our opinion, rates will remain unchanged, at least until 2022. Perhaps the Council will decide to offer some form of credit support when further hard data show a growing gap between investment and consumption. We see space for such a measure.

Authors

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.