

## Poland: MPC has allowed the NBP to transfer more profit to the government

The National Bank of Poland projection was revised only to a small extent (inflation up and GDP growth down). The Monetary Policy Council has raised the target amount of NBP reserves for FX-related losses, but also allowed the NBP to transfer 50% of its net financial result to the government as profit. This might support the budget after 2020



### Monetary policy stance remains unchanged

The Monetary Policy Council has left rates unchanged at 1.5%, as expected. It has also maintained (even strengthened) its reluctance to change interest rates in any direction. National Bank of Poland President Adam Glapiński reiterated his forward guidance that rates will remain unchanged until the end of his term (beginning of 2022). This also seems to be the view of the majority of the MPC. The main argument raised today to justify such a stance is that the Polish economy is broadly balanced and does not require monetary stimulation despite the global economic slowdown. The temporary nature of recent inflation growth does not justify monetary tightening as well.

## NBP: New projections

The new NBP macroeconomic projections have not changed significantly from the July round. The CPI path was revised slightly upward from 2.0% to 2.3% year-on-year for 2019, but for 2020-21 remained unchanged at 2.9% and 2.6% YoY respectively. This projection assumes that energy prices will rise by 8% YoY at the beginning of 2020, which is rather conservative given that the government did not allow energy prices for households to rise at all in 2019. The NBP expects CPI to remain firmly below the upper limit of the inflation target (2.5% YoY +/- 1 percentage point) at least until 2021, which is also consistent with our own view. We are less sure that CPI won't exceed the 3.5% boundary in the first quarter of 2020 and we worry that reaching 2.5% YoY will take more time than the NBP expects.

GDP growth was revised downwards by 0.2ppt in 2019, by 0.5ppt in 2020 and 0.3ppt in 2021 (to 4.3%, 3.6% and 3.3% YoY respectively). This reflects worse-than-expected economic activity in Germany and the Eurozone - main trade partners of Poland. We are slightly less pessimistic for 2020 but the differences are negligible.

## Discussion on NBP reserves and profit

Despite keeping monetary policy unchanged, the MPC has made one important decision today, namely to amend the NBP policy for creation of reserves for FX-related losses. Up to now, if such reserves were below the target level (around PLN13bn), the NBP was required to use all of its net financial result (if positive) to raise them. In such case no profit from operations can be transferred to the budget of the government. Under the new policy, the target level of FX reserves was increased threefold, but the NBP will transfer only half of its net financial result to raise them and the other half will be transferred to the government as dividends.

The change of this policy won't support the budget significantly in 2020 as the net financial result of the NBP for 2019 will probably be very low (around PLN1-3bn). However, it might support the budget in subsequent years if the Polish zloty weakens against major currencies.