Poland: MPC keeps rates and bias unchanged

Despite a strong V-shaped recovery in 3Q20 and higher-than-expected inflation in September, new Covid-19 outbreaks bears downside risks to growth, so the Council is still committed to supporting the economy. In our view, the National Bank of Poland should continue its asset purchase programme, while upside risks to CPI makes rate cuts unlikely

- As expected, the MPC has not changed the monetary policy parameters after today's meeting. The NBP will continue its asset purchase operations.
- The Council's press release hardly differs from last month. The Monetary Policy Council points out that GDP recovered in a V-shape, but the GDP profile is flattening now. Moreover, the new outbreak of Covid-19 bears downside risks.
- The MPC's assessment of the inflation outlook has not changed despite the rebound in core inflation in September. It is too early for strong conclusions as we do not know the components of the September CPI. Also, in November the NBP will post its new projections. In our opinion, a very strong fiscal impulse has already caused a strong rebound in consumption and should limit the inflation slide in 4Q20 and 2021. We have revised our

inflation forecasts upwards to a 2.8% year-over-year average. It remains to be seen how much the NBP will adjust its GDP and CPI projections. Those presented in July were much below our and consensus expectations, and since then the consensus has increased for both.

- MPC held unchanged the statement referring to the lack of supportive PLN depreciation. According to the Council, the pace of economic recovery may also be limited by the lack of a marked adjustment of the PLN exchange rate despite the global shock caused by the pandemic and a loosening of NBP monetary policy. The MPC, unlike the Hungarian central bank, can afford such an approach to the zloty, as the risk of a greater PLN weakening is low. The Polish currency is supported by a 3% current account surplus, which, unlike in Hungary, even increased during the pandemic.
- We keep the view that currently the monetary policy in Poland, besides mitigating the negative effects of the pandemic waves and preventing a CPI slide (that starts to sound strange), is focused on supporting the government in financing its high borrowing needs. Hence we do not expect any changes in monetary policy at least until 2022. The NBP will continue the asset purchase programme. Such a signal is important for maintaining stability on the debt market, where gross borrowing needs (of Polish government bonds and other state-guaranteed bonds issued by BGK and PFR) should reach about 19% of GDP. A possible weakening of the zloty, e.g. as a result of tightening monetary policy in the neighbouring countries, should be tolerated by the Council as an element supporting the competitiveness of exports and the economic growth.
- The higher-than-expected inflation in September, mainly due to the core components, creates the risk of a higher headline CPI next year. We believe, however, that as long as the headline CPI does not permanently exceed the upper limit above the CPI target, the MPC will decide not to tighten monetary policy. Such an NBP bias should be in place for as long as the ECB remains dovish.

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