

Snap | 4 March 2020

POLAND

Poland leaves rates on hold

Poland's central bank left rates on hold but admits the odds of emergency monetary easing have grown



Poland's central bank left rates on hold, as expected.

We expect governor Adam Glapinski to reiterate that he was correct with his forward guidance in the recent months assuming flat rates until the end of the term. However, the next move is likely to be a cut, as, since the last meeting, the odds of emergency monetary easing have grown. As Covid-19 expands rapidly, emergency easing in the eurozone and CEE region will raise the odds of a National Bank of Poland rate cut too.

The central bank will present new projections this month, most likely showing substantially higher CPI and lower GDP paths. We expect the MPC to underline regulatory factors behind inflation overlooking demand-driven factors and the inflationary impact of the minimum wage hike which has disturbed the usual cyclical labour costs slowdown, supporting the neutral MPC stance.

We expect CPI estimates for 2020 to be revised upwards - from 2.8% to around 3.5% YoY. However, the projection will most likely point to inflation returning to the fluctuation band around the target this year. We forecast average CPI growth in 2020 will exceed 3.5%, and annual growth should touch 3.9% y / y.

At the same time, the Bank is likely to revise its GDP forecasts downwards emphasising that

these forecasts are subject to high uncertainty due to the spread of the epidemic. We expect a decline in GDP from 3.6% to around 3% YoY in 2020.

Our last forecast of GDP growth in 2020 is 2.9% y / y, but if we see a materialisation of negative scenarios related to coronavirus, this may go down by 0.5-1 percentage points.

All internal demand proxies suggest 1Q20 GDP growth should be close to 4Q19 numbers. The stock building by households in the face of Covid-19 may cause some transitory consumption spike in 1Q20, but overall, we see GDP growth slowing to 2.9% YoY in 2020 due to weaker domestic demand.

Covid-19 is another downside risk. We estimate at least 0.5ppt (so far not included). Export-oriented industries were doing remarkably well, but 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.

The central bank may argue that the rate cut would be a blunt instrument to prevent the negative impact of Covid-19 on GDP. It is not only the cost of money but rather better access to liquidity which may be more effective in current circumstances. Deferred taxes or maybe a kind of non-standard measures (allowing banks to grant short term loans) should be a more effective instrument that would help companies to survive the Covid-19 outbreak and limit the negative impact of disruption in cash-flows on company liquidity and finally prevent defaults and second-round effects on the labour market.

Another argument against a rate cut (but less important now) is the elevated CPI, which should stay outside the range around the CPI target (2.5%+/-1%) for long.

The coronavirus has caught markets off guard – widespread stop-losses pushed bonds yields downwards and swap rates to stretched levels, but three rate cuts priced within a year is a bit excessive in our opinion.

However, a substantial correction is unlikely as long as the coronavirus continues to spread.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@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 www.ing.com.