

Poland's central bank stays on hold

No change today in interest rates or any other parameters of monetary policy. But further easing is a matter of time. We see a high risk of a national lockdown. New projections suggest lower GDP and higher CPI in 2021, but this should not prevent further easing if needed



No change today in interest rates or any other parameters of monetary policy

The Monetary Policy Council did not change interest rates or any other parameters of monetary policy today. The post meeting statement has marginally changed. In our opinion, further easing is a matter of time. We see a high risk of a national lockdown. The MPC's next steps may take various forms: (1) further asset purchases - the programme remains open, (2) strengthening the instruments facilitating credit creation, (3) possibly a symbolic rate cut, if the rebound of EUR/USD after the US elections continues to strengthen the Polish zloty.

A symbolic cut of the reference rate by 10 basis points, despite the limited direct impact on the economy (and 180 billion of liquidity accumulated in NBP bills), would emphasise the MPC's preference for a weaker zloty as an instrument supporting export competitiveness.

The Council may also strengthen instruments aimed at supporting lending. These actions can take various forms, e.g. modification of the bill discount credit (it is now dead - an extension of its

maturity and lower costs would help), introduction of Targeted Longer-Term Refinancing Operations (such an instrument was already considered by the government in spring, but some members of the Council raised concerns about compliance) or some form of refinancing of state-guaranteed loans that the banking sector could make to businesses. The aim would be to stimulate corporate lending and investment after the lockdown is lifted.

New projections: Lower GDP, higher CPI in 2021

The central bank also released new projections, which take into account the positive impact of better GDP in the second and third quarters of 2020 (in July, the NBP assumed a GDP contraction of 7.7% year-on-year in 3Q, our current estimate is for a decline in GDP of approximately 1.9% YoY, with upside risk) and the negative impact of subsequent restrictions in 4Q and 2021.

As a result, the GDP path was increased by as much as 1.9 percentage points for 2020 (to -3.5% YoY), and for 2021 it was reduced by 2.25ppt (to + 2.65% YoY). Our forecasts so far have called for a GDP contraction of between -2.9% to -3.5% YoY this year. In our negative scenario, which included the introduction of a national lockdown, we assumed that GDP in Poland could fall by 4.3% YoY in 2020.

In July, the NBP forecast consumer prices at 3.3% YoY average in 2020 and 1.5% in 2021. The NBP revised its CPI projections upwards by 0.15ppt in 2020 and 1ppt in 2021. Currently, they are slightly below our forecasts of 3.5% YoY in 2020 and 2.8% in 2021.

The revisions to the central bank's projections show lower GDP next year amid much higher inflation. The upward revision to the CPI path could have had some impact on the Council's decision not to cut rates further. But the Council missed an opportunity to deliver measures aimed at supporting the economy. The asset purchase programme stabilises Polish government bonds at a time when public borrowing needs are at a record high (19% of GDP in 2020), but the bill discount credit does not work and we have seen a crowding out effect of private credit by public borrowing needs.

Today's decision by the Council was announced relatively late, which may indicate stormy discussions during the meeting. Unfortunately, again, we were not able to follow the press conference, since the April MPC communication relies on a statement posted on its website.

NBP projections			
	2020	2021	2022
GDP			
projection from Nov-20	-3,55	2,65	5,8
projection from Jul-20	-5,4	4,9	3,7
CPI	2020	2021	2022
projection from Nov-20	3,45	2,5	2,8
projection from Jul-20	3,3	1,5	2,5

Source: NBP

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.