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

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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

GDP	2020	2021	2022
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	2,6
projection from Jul-20	3,3	1,5	2,5

Source: NBP

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