

No change in Poland's MPC policy

The post-meeting statement confirms that the Council expects elevated CPI inflation to be only temporary and reiterated the need to continue bond purchases and the bill discount credit programme. Market focus is expected to shift to the MPC chairman's news conference on Friday



National Bank of Poland President, Adam Glapinski

The recent weakening of the zloty has resulted in a softening of the prevailing narrative on the risks to economic growth posed by a lack of sustained exchange rate adjustment. Now the MPC notes that the momentum of economic recovery in Poland will also depend on the future exchange rate having previously spoken of the danger of too weak an adjustment in the exchange rate.

The balance of payments for 2020 and January 2021 indicates that the current exchange rate level is not an obstacle to companies' competitiveness. Also, given the expected rebound in the global economy and the assumed significant acceleration in vaccinations in 2Q21, the growth outlook for Poland remains good, despite prolonged restrictions.

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We see an upside risk to the National Bank of Poland's current inflation projection. In March the central bank projected a 2.5% YoY headline CPI in 1Q21, with core at 3.5%. According to the Central Statistical Office, the headline CPI amounted to 2.7% YoY, and we estimate core inflation at 3.8% YoY. The NBP assumed that CPI would average 3.1% YoY in 2021, we see the risk of a figure above 3.4%, and even more than 4.0% YoY in the final months of 2021.

However, we believe the Council should tolerate risks to the inflation path. We think that the current priority for the MPC is to support GDP growth. The Council is most likely to emphasise that the recent increase in CPI (to 3.2% YoY in March) is temporary and driven by factors beyond its control. In our view, the current term of the Council will not find a majority for a change in the monetary policy stance. Although, as inflation should accelerate during the course of the year, minority voices on tightening policy may become increasingly loud.

Much of the market focus is likely to be placed on Adam Glapiński's press conference this Friday (15 CET). Investors should particularly watch for any remarks over the [NBP role in conversion of FX denominated mortgage loans](#). We expect the conversion to take place off-market, via NBP reserves. It would otherwise result in a pronounced depreciation of the zloty, while already CPI should top 4% YoY by the end of the year.

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