

Polish central bank concerned about the strength of the zloty

Poland's central bank entered the "wait and see" mode today, expressing concerns about the relative strength of the currency. Unless PLN weakens significantly we don't expect policy normalisation before 2022



Source: iStock

Poland's central bank has responded to the Covid-19 health pandemic by launching an unlimited quantitative easing programme and lowering the interest rates by 140 basis points.

Right now, the base rate is just above zero - at 0.1%. The last cut by 40bp in May came as a surprise, but before the meeting today, some monetary committee members - most notably G.Ancyparowicz, R.Sura, C.Kochalski and J.Żyżyński - reiterated they strongly oppose negative interest rates and see no further need for any more monetary easing.

The main factor of concern is the Polish zloty exchange rate

The Council confirmed its dislike of negative nominal rates and returned to the "wait-and-see" mode. The main factor of concern is the Polish zloty exchange rate.

In the Councils' opinion, the exchange rate has remained relatively strong despite policy loosening which might slow the recovery of the economy. We suspect this was the key reason behind the last rate cut decision.

Nonetheless, we think interest rates in Poland have already reached their bottom, at least during this policy cycle. Further rate cuts would substantially strain the stability of weaker participants of the financial sector. Also, the experiences of other countries show that near-zero rates result in the deterioration of credit availability rather than improvement.

More QE?

The MPC is more likely to extend the National Bank of Poland's asset purchase programme.

We expect the central bank to buy PLN 200bn of Polish government bonds and other debt with state treasury guarantees by the end of the year, and half of this amount has already been purchased by the central bank. Thus Polish QE will reach 8-10% of GDP in December 2020.

But when will policy normalise? We think that this will not happen before 2022 as next year the government will still face a high deficit - we forecast 5% of GDP, which will be difficult to finance without the support of low rates and QE. Moreover, the strength of PLN encourages keeping monetary policy loose.