

## Poland: Preview for the delayed central bank meeting

A barely communicated delay by two days suggests: (1) the central bank wants to update its projections and (2) similar to the proactive approach in the spring the Council may use: a signalling cut by 10 basis points, commitment to a sizeable asset purchases or private credit facilitating programme



### A barely communicated delay in this week's MPC meeting by two days suggests:

Poland's second wave of the Covid-19 pandemic started to gain momentum in mid-September and prompted semi-lockdowns from 24 October. Unfortunately the spread of Covid-19 has not slowed down significantly. As a result, the lockdown is scheduled to deepen starting from 7 November.

Polymakers in Poland look set to offer further anti-crisis measures. We estimate the government can use up to PLN100bn (4.5% of GDP) over coming months in support packages.

But today, it is the turn of the Polish Monetary Policy Council (MPC). In a meeting delayed by two

days, we believe:

(1) The National Bank of Poland (NBP) wants to update its newest projections, which will be subject to MPC debate this week, so that the numbers should encompass the impact of stricter lockdown measures announced on Wednesday.

(2) New measures may be introduced, similar to the NBP's proactive approach in the spring.

In terms of stimulus measures, we see three: i) a signalling cut of the reference rate by 10bp to 0%, ii) a commitment to a sizeable asset purchase programme (APP), and iii) an announcement of a private credit facility programme. These may all be used by the NBP in this meeting or in the coming months.

## Uncharted territory of negative interest rates

We see an additional rate cut as a possible scenario, even if the actual impact on PLN180bn placed weekly in NBP bills may be limited. The majority of liquidity placed in NBP comes from state bank BGK, so lower rates should not facilitate new private credit, given that reversal rates in Poland is already above the current level of official rates (tax and regulatory burdens on commercial banks in Poland are one of the highest in Europe).

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*The main reason to cut rates is the preference for a weaker zloty*

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Still the main reason to cut rates would be to highlight the MPC's preference for a weaker zloty (PLN). The NBP has two main options for lowering rates. One is cutting all rates, pushing the deposit rate into negative territory and the reference rate to zero. The other is keeping the deposit rate at zero and cutting the reference rate to zero as well, or just above zero. In both cases the NBP should also tighten the rates corridor, moving the Lombard and refinancing rates by more than 10bp.

The banking sector should still have the space to absorb the decline in rates, at least partially. Average rates on new household deposits have ranged from 0.3% to 0.5% in recent months. Corporate deposit rates are already almost at zero, but banks may charge companies for running their accounts.

In economic terms the rate cut will have a very limited impact. Average credit rates for households hover around 3.7% and 2.4% for corporates. A 0.1 percentage point decline will not have a material impact. Moreover, it will not deter banks from continuing to increase non-interest charges, hence largely offsetting a rate cut impact on the economy.

Moreover, based on the financial statement of the state-owned BGK bank we estimate that it holds most of NBP money bills (PLN160-180bn in total). NBP bills are not exempt from the asset tax, so one may assume that lowering policy rates (and bill rates, directly tied to them) may trigger much of these holdings to be transferred either to POLGBs (or state-guaranteed papers), or fuel credit activity. However, BGK is already exempt from the asset tax, so the rate change should have very limited impact.

## Private credit facility instrument

There are a few options available:

(1) The MPC can fine tune the current “bill discount credit” aimed at refinancing loans granted to enterprises by banks. Discount credit in essence consists in that the NBP may accept for discount promissory notes from banks, issued by enterprises in connection with bank loans granted to them. The interest rate on the “bill discount credit” is based on the discount rate for promissory notes (0.12% now). The loan may be granted for a maximum of one year.

The NBP have offered this instrument for banks since April 2020, but its take-up was very limited – around PLN50m until mid-October. In order to make the instrument more efficient, the MPC may change its scope extending the term and reducing the cost, probably with negative interest rates taking current market conditions.

(2) The next option on the MPC list is the provision of Long Term Refinancing Operations, like the Targeted Longer Term Refinancing Operations of the ECB. It is worth noting that the possibility of the LTRO was included in the shield package presented by Polish government as early as 18 March 2020 (Pillar 4: Strengthening the financial system). NBP governor Adam Glapiński announced that legal issues related to other non-standard instruments should be clarified with ECB and EC.

(3) Another option might be a new programme, e.g. using state-guaranteed loans, which the banking sector could provide to companies. The objective would be to boost corporate credit and create additional investments to provide incentives for economic activity.

On Wednesday, PM Morawiecki mentioned long-term credit with guarantees while presenting a list of anti-crisis measures. It may use state-guaranteed loans, which the BGK can provide to commercial banks funding companies. The objective would be to boost the corporate credit and facilitate private investments after the lockdown will be lifted and GDP recovers.

This kind of credit already exist, is much more popular than “discount credit” but still provides limited support to the economy (PLN80bn guarantees in 7 years). It should be streamlined via a lower cost of funding to work better and enhancing its availability to companies with lower credit capacity.

## Market reaction

Investors should be mainly focused on policy rates. Interbank rates already price a 10bp cut. If the deposit rate goes below zero, investors should likely price additional easing in the future, some 5-10bp within a year. Leaving the deposit rate unchanged should have a far smaller impact, as investors are likely to anticipate more easing later, e.g. after the ECB meeting in December.

The decision should play a lesser role for the zloty, as seen after the rate cut in May. The impact should be mildly negative if the deposit rate is cut, neutral should rates stay flat.

On the bond market the bulk of the impact should be on the short end, leading to a limited curve steepening if the deposit rate is cut. The long end is mainly affected by core markets and the NBP open-ended bond purchase programme.

So far the NBP has bought assets of 4.5% of GDP and during the November meeting it should reiterate it is ready to act. But this is hardly new news, given that investors already expect the NBP

to continue its asset purchase programme, following ECB easing expected for December. The difference now is that NBP may communicate this before the ECB. Leaving the deposit rate unchanged will have less market importance for POLGBs, as expectations for a rate cut should persist.

## Last but not least - the revision of forecasts

Tomorrow's MPC meeting will also be devoted to the update of the macroeconomic projections. One of the reasons the NBP postponed the meeting was to include the impact of more strict lockdowns to projections or at least the fan chart around its baseline view.

The update will cover the better-than-expected 2-3Q20 outcome: currently the NBP's projection for 3Q20 is -7.7% year-on-year, while our latest estimate shows c.-1.9% YoY (with upside risk).

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### *Fourth quarter growth is expected to be weak*

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Given another hit in 4Q20, we do not expect the whole year's GDP growth to be revised as much – since the Polish economy is entering the next lockdown and 4Q will be weaker. In a negative scenario real GDP in Poland could fall by 4.3% YoY in 2020, while the NBP's current forecast is a -5.4% YoY drop.

Recently higher CPI readings, including core components, should prompt the NBP to revise the expected inflation path upwards. The current NBP's projection indicated an average YoY price increase of 3.3% in 2020 and 1.5% in 2021. Our forecast is 3.5% YoY in 2020 and 2.8% in 2021.

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