Poland to keep rates on hold as QE remains the focus

Expect the central bank of Poland to keep rates on hold tomorrow with the MPC focusing on more quantitative easing if required. Our baseline scenario assumes asset purchases should reach between 8-10% of GDP by December 2020

Poland's central bank meets tomorrow and we think the central bank will keep rates on hold as the MPC has concluded its rate easing cycle and is unlikely to test negative rates.

FRA rates imply stable rates for the next 18 months and limited prospects of hikes after that too. Key MPC members have expressed unwillingness to push the deposit rate below zero, also other policy rates are already compressed. Post-meeting comments are likely to remain grim, underlining a strong recession and a lengthy recovery.

Further cuts would substantially strain the stability of some of the weaker participants of the financial sector. Also, the experience of other countries shows that near-zero rates result in the deterioration of credit availability rather than improvement.

For next year, we estimate the government deficit to be around 5% of GDP

The council is likely to focus on the quantitative easing program and our baseline scenario assumes that asset purchases should reach between 8-10% of GDP in December 2020, of which around half have already been delivered). However, the likelihood of program extending into 2021 is rising.

For next year, we estimate the government deficit to be around 5% of GDP and the government may face obstacles to finance it without central bank support.

Moreover, we see PLN strengthening as a major reason behind the aggressive rate cut in May. Since then €/PLN has stopped declining, and the zloty remains relatively stable against Central and Eastern Europe counterparts.

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