

## Poland: Rates stay flat, Council concerned by zloty strength

The decision to hold rates flat was hardly surprising. The statement after the Monetary Policy Council meeting remains dovish. Further FX interventions cannot be excluded. We expect to hear more during the governor's press conference this Friday



Today the market was focusing on the MPC's response to PLN appreciation. In terms of rates, the majority of the MPC's advance statements indicated that the preference is to keep the rates flat till the end of the Council term in mid-2022. An additional cut (10bp) is dependent on a third pandemic wave, which currently seems unlikely given Covid-19 dynamics in Poland.

The statement points out that although GDP in Poland contracted in 4Q20, the drop was substantially lower than in 2Q20. The Council expects the economy to bounce back in 2021, but the path of the recovery will be dependent on the epidemic situation and ensuing restrictions. The National Bank of Poland will continue to provide unchanged the bill discount credit and the open-ended assets purchase programme. To strengthen the impact of monetary easing on the economy, the NBP may also intervene on the FX market.

The Council also reiterates that it is concerned over the lack of visible and sustained zloty reaction

to the monetary loosening, but adds nothing new on that front. We hope to hear more during the press conference this Friday, when NBP governor Glapinski should answer some of the questions sent by journalists. So far the NBP has refrained from FX interventions despite PLN approaching (but not breaking) December 2020 intervention levels between 4.45-4.48.

We would also like to learn whether the NBP can help to cover CHF/PLN short positions outside the FX market (with NBP FX reserves), in case local banks decide to end the Swiss franc mortgages saga in the coming months. We don't expect the NBP to make a clear statement, as the end of the saga by banks themselves would serve as an important factor working against PLN appreciation and raising the market impact of the NBP verbal interventions.

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