

Poland: Rates unchanged, further FX interventions possible

As we expected, the Monetary Policy Council kept rates on hold. The press release after the meeting remains dovish and underscores the importance of a weak zloty for the post-pandemic recovery. The Council does not exclude further FX interventions



December FX interventions by the National Bank of Poland and a change of rhetoric by some MPC members made the market price a rate cut. Today was the first meeting of the Council held after the interventions. As we expected, no interest rates were changed. The press release issued after the meeting is very dovish and emphasises the importance of the weak zloty for rebuilding economic activity after the pandemic. The novelty is the sentence about the possibility of using interventions in the foreign exchange market to strengthen the impact of monetary easing on the economy.

The decision is consistent with the latest interview by A.Glapiński in which he stated that the current monetary policy parameters are sufficient to support the economic recovery. He stressed, however, that a rate cut might be possible in 1Q21 in case of a third wave of the pandemic. The risk of a third wave obviously exists, but currently the epidemic situation in Poland seems to be stabilising.

The lack of a decision today does not mean that rates cannot be changed in the coming months. In our opinion, the probability of a rate cut in 1Q21 is c.40%. In the context of reservations expressed by some MPC members about the legality of negative interest rates, we currently estimate the room for a rate cut at 10bp.

We believe that the zloty's performance will be very important for the MPC's next moves. If the EUR/PLN quickly moves below the levels at which the NBP intervened in December (c.4.45), the chances of monetary policy loosening in Poland significantly increase. However, we believe that the purpose of the NBP's recent interventions, aside from supporting price competitiveness of exports, was also to avoid NBP losses on valuation of FX reserves at the end of the year. Currently, the latter is no longer of much importance.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.