

## 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.

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