

Poland's central bank decision and press release

The future risks, such as the next Covid-19 wave, the lack of PLN weakening and still high public borrowing needs are behind the central bank's decision to stay on hold



As expected, the Monetary Policy Council did not change the monetary policy parameters at today's meeting. The National Bank of Poland holds its asset purchase program open without any specified size or timing.

Also, the post-meeting statement stays almost plain vanilla. The Council noted a positive risk for GDP growth this year. The improvement of the economic situation is supported by undertaken fiscal measures, as well as the accompanying loosening of monetary policy. Lower commodities prices, together with reduced economic activity, are conducive to maintaining low inflation.

We see at least three reasons behind the monetary policy stance remaining unchanged. The MPC points at risks which still lie ahead of us: uncertainty about the further course of the pandemic, the risk of lower income dynamics and weaker sentiment of economic entities than in past years. According to the Council, the pace of economic recovery may also be limited by the lack of a marked adjustment of the PLN exchange rate despite the global shock caused by the pandemic and a loosening of NBP monetary policy.

The second reason for maintaining the monetary policy unchanged are the high borrowing requirements of the public sector in 2021, the financing of which needs to be supported by the NBP through continuing the asset purchase program. Although in our opinion the deficit assumed by the government will be lower in 2020-21, and part of the borrowing needs will be financed with EU funds, including SURE, the NBP's readiness to support the market is still important to maintain stable debt financing.

The Council also points at the third possible factor behind the continuation of a loose monetary policy – the PLN exchange rate. In our opinion, the MPC's dissatisfaction with the current PLN value (no weakening) means that as long as the ECB is closer to increasing QE rather than the opposite, there is no possibility to adjust rates in Poland either. We assume the first possible rate hike may happen in 2022.

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>.