

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.

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