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Economic Comment

Emergency rate cut and non-standard easing

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Polish NBP cut main reference rate by 50bp to 1.0%, lombard rate by 100bp to 1.5% and left deposit rate on hold at 0.5% at the working meeting. The reserve requirement was lowered from 3.5% to 0.5% and the interest on mandatory reserves was raised from 0.5%. Also, the non-standard monetary easing (QE, TLTRO, liquidity provision) was confirmed, although without technical details.

We think that after the emergency move, the MPC will be reluctant to cut interest rates further. The central bank would rather wait to see the details and the first results of rescue package to be announced by the government (hopefully we will see some news tomorrow), and to assess the severity of economic growth deterioration in the coming months / quarters. For now, we assume that the official interest rates will remain on hold until the end of the year.

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In the press release published at the NBP website the MPC also confirmed the non-standard monetary policy measures declared one day earlier by the NBP Management Board: the central bank will start Polish sovereign bond purchases at the secondary market (Polish QE program), conduct repo operation to provide liquidity for the banking sector and introduce a facility similar to the ECB's TLTRO enabling banks to refinance loans for corporations. However, no more information about the non-standard measures were revealed, so we do not know about the possible scale and technical details of the operations.

The Council wrote that about worsening economic outlook due to the spread of the coronavirus, but at the same time expressed hope that in the longer run the consequences will be lessened by the stimulative packages introduced in many countries. The MPC sees higher probability of inflation falling faster due to economic slowdown and collapse of oil prices.

The statement reveals no hint at all regarding the monetary policy outlook. We think that after the emergency move, the MPC will be reluctant to cut interest rates further, at least for some time. The central bank would rather wait to see the details and the first results of rescue package to be announced by the government (hopefully we will see some news tomorrow), and to assess the severity of economic growth deterioration in the coming months / quarters. For now, we assume that the official interest rates will remain on hold until the end of the year.

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