

17 June 2020

Economic Comment

MPC: the zloty should have been weaker

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The NBP kept interest rates unchanged, in line with expectations. The official statement included an important addition stating that “the pace of economic recovery could be mitigated by the lack of visible zloty exchange rate adjustment”. It looks like in the Council's opinion the FX channel does not work effectively as a macroeconomic policy instrument in this recession phase - zloty should have been weaker, which would support Polish exporters. Let us remind words of MPC's Rafał Sura, who said at the beginning of June that the NBP would analyse reasons behind mild PLN weakening and this could affect its future actions (EURPLN neared 4.40 at that time). Rafał Sura usually shares views of NBP President Adam Glapiński and the new sentence in the official statement suggests that the issue brought the Council's attention. Again, there will be no post-meeting press conference, so it is hard to interpret if this means something in practice. We still believe interest rates are about to stay on hold for a long time, at least until the end of 2021. The next meeting is scheduled for 8 July, with new NBP staff economic forecasts. EURPLN went higher by 0.01 after the statement.

MPC statement (indication of changes as compared to May statement)

The incoming data confirm that the COVID-19 pandemic contributed to a fall in global economic activity. ~~In the , including to a recession in economies of being~~ Poland's ~~main major~~ trading partners ~~this was mirrored by falling GDP in 2020 Q1 as well as a significant drop in industrial production and retail sales in April.~~ ~~It.~~ This was accompanied by ~~deteriorating a deterioration in~~ labour market situation and ~~a~~ sharp weakening of consumer and business sentiment. In order to mitigate the negative economic effects of the pandemic, fiscal measures have been introduced to alleviate the fall in households' and enterprises' income as well as to stimulate economic activity. At the same time, monetary policy has been eased by – inter alia – lowering interest rates and pursuing asset purchases. ~~The recent period, together with loosening of restrictions imposed in order to contain the pandemic in many countries, has seen a gradual improvement in sentiment.~~

Recent forecasts indicate that in the second half of 2020 global economic conditions should improve, ~~but though~~ the level of activity will be lower than before the pandemic. At the same time, there is uncertainty regarding the pace and robustness of the improvement in global economic conditions in the following quarters. ~~As a consequence, the situation in the financial markets remains volatile, although the volatility is being mitigated by monetary~~

~~Monetary~~ policy easing ~~conducted by and fiscal stimulus packages introduced in~~ major ~~central banks.~~ ~~The weakening advanced economies, along with a certain improvement in sentiment, contributed to increases~~ of current and expected demand leads to falling ~~some~~ asset prices of ~~many in the international~~ financial markets which was also reflected in the appreciation of some countries' currencies. Moreover, in the recent period the fall in the prices of some commodities. ~~The prices of energy commodities, as well as some food commodities has come to a halt, although they are still considerably lower than at the beginning of the year, contributing –.~~ This, together with weaker economic activity – ~~to slower price growth, contributes to a decline in inflation~~ in many countries, including ~~Poland's~~ main trading partners ~~of Poland.~~

In Poland, ~~economic conditions in the first months of the year were relatively favourable, but GDP growth on an annual basis decelerated.~~ the April data point to a significant fall in economic activity, a decrease in wages and employment in enterprises as well as ~~a deterioration of weak~~ consumer and business sentiment. ~~At Yet, the same time inflation declined markedly and the annual change in producer prices was negative. As the recent weeks have seen a gradual lifting of economic activity restrictions related to the pandemic are lifted, which has translated into some improvement in sentiment. This has been accompanied by a considerable decline in inflation.~~

~~Over the near term, a further~~ recovery in economic activity ~~could may~~ be expected. ~~This would~~ Apart from the likely further loosening of the pandemic-related ~~restrictions, this will~~ be supported by economic policy measures, including monetary policy easing by NBP, that ~~mitigate mitigates~~ the fall in employment, supporting incomes of households and financial situation of enterprises. The scale of the expected recovery could, ~~however,~~ be ~~– in turn –~~ curbed by uncertainty ~~regarding about~~ the consequences of the pandemic, lower incomes and weaker sentiment of economic agents than in previous years. ~~Weaker activity in.~~ ~~The pace of the economic recovery could also be mitigated by the lack of visible zloty exchange rate adjustment to~~ the global economy, including in Poland, together with lower commodity prices in international markets will contribute to a further decrease in inflation. ~~Consequently, the risk of inflation falling below the NBP inflation target in pandemic shock and to the monetary policy transmission horizon prevails. Considering the above-mentioned circumstances, the Council decided to cut the easing introduced by NBP.~~

~~NBP interest rates again.~~ NBP will ~~also will~~ continue to purchase government securities and government-guaranteed debt securities ~~on in~~ the secondary market as part of the structural operations. These operations are aimed at changing the long-term liquidity structure in the banking sector, ensuring the liquidity in secondary markets for the purchased securities and enhancing the impact of the NBP interest rate cuts on the economy, i.e. strengthening the monetary policy transmission mechanism. The timing and scale of the operations will depend on the market conditions.

Furthermore, NBP will ~~also~~ offer bill discount credit aimed at refinancing loans granted to enterprises by banks.

The NBP monetary policy easing mitigates the negative economic impact of the pandemic, limiting the scale of the ~~fall in~~ economic activity ~~fall~~ and supporting incomes of households and enterprises. Consequently, it alleviates the fall in employment and deterioration ~~of in~~ financial situation of enterprises, thus being conducive to quicker ~~economic~~ recovery ~~after the after~~ the abatement of the pandemic. The measures undertaken by NBP reduce the risk of inflation falling below the NBP inflation target in the medium term and – due to their positive impact on financial situation of debtors – ~~–~~ are conducive to enhancement of financial system stability.

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