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Economic Comment

MPC less worried about the zloty?

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The MPC kept interest rates unchanged, with the reference rate still at 0.10%. The post-meeting official statement included two notable changes:

1) The MPC dropped the sentence stating that the pace of recovery may be limited by insufficient and not persistent zloty weakening and instead simply wrote that the pace of recovery will depend on the zloty exchange rate. At the same time, later in the statement the Council reiterated that the NBP may use outright FX interventions if needed. The zloty strengthened slightly after the statement (EURPLN 4.5714) and we think the central bank could have fallen into a trap, as such change in rhetoric may push EURPLN even lower towards levels at which the MPC was worried about its insufficient depreciation.

2) The March rise of CPI to 3.2% encouraged the MPC members to comment more on inflation, but still they have just downplayed its rise in March stating that it was due to factors not dependent on monetary policy, like higher fuel, electricity and refuse collection prices. We do not agree fully with this statement and we think it was just a mere cherry-picking, as according to our estimates core inflation rose markedly in March and it is difficult to blame it only on factors independent of monetary policy.

We stick to our view that the MPC will keep interest rates unchanged, probably until mid-2022 when the NBP governor's tenure ends.

The videoconference of NBP governor Adam Glapiński is scheduled for Friday (9 April) 15:00 CET. We guess that – just like one month ago – Mr. Glapiński will use the opportunity to downplay the risk of excessive and persistent inflation rise and will assure that the most likely scenario is interest rate stability for long.

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MPC statement (changes vs the March statement)

The ~~surge~~recent period saw a worsening of epidemic developments in ~~COVID-19~~ many countries. This translated into tightening of the pandemic ~~and~~ -related restrictions ~~had a negative impact on global~~ that are negatively affecting economic activity~~ in 2020 Q4 and the beginning of 2021. The euro area slipped into recession again in 2020 Q4. Available data on the economic situation at the beginning of 2021 point to a continued weakness in the services sector, with further rise in industrial output in this economy.~~

~~Inflation in the global economy is low, despite a slight rise recorded in some countries in January. The~~, mainly in the service sector. At the same time, in many economies activity in industry continues to increase. Prices of many commodities, including oil, are currently significantly higher than a year ago. Such developments in commodity prices are exerting an upward pressure on global inflation. However, due to still weak economic conditions and uncertainty about the economic outlook, major central banks are keeping their interest rates low and are conducting asset purchases~~. Despite uncertainty about the development of the pandemic, financial market~~ and signal maintaining loose monetary policy also in the future.

Incoming data on economic developments in Poland indicate that industrial production continued to grow in February 2021 and sentiment ~~remains positive. This is accompanied by a rise in global commodity prices, including oil. In Poland, preliminary data on national accounts for 2020 Q4 confirmed that GDP fell in this period. Activity declined~~in that sector improved as ~~a result of~~well. At the same time, a fall in ~~consumption and lower investment than a year ago. In turn, the fall in GDP was limited by the positive impact of net exports. Incoming data on the economic conditions in January indicate that the relatively good situation in the industrial sector continues, although industrial output growth slowed down. In turn,~~ construction and assembly output ~~and~~ deepened and the annual change in retail sales ~~recorded significant falls.~~ – despite somewhat more optimistic consumers' sentiment – remained negative. This was accompanied by ~~a fall in~~rising average employment in the enterprise sector, in month-on-month terms, and ~~a decline in annual growth of~~ slowing average ~~wages~~annual wage growth in this sector.~~ According to the GUS flash estimate, inflation stood at 2.7% y/y in January 2021.~~

~~Following the fall in GDP in 2020, a rise in economic activity is expected in 2021~~According to the Statistics Poland flash estimate, inflation in March 2021 increased to 3.2% y/y. Increase in inflation was driven primarily by a further rise in fuel prices stemming from growing oil prices in the international markets. At the same time, the annual CPI has been pushed up by electricity prices that rose at the beginning of 2021 and by the earlier increases of waste disposal charges – thus by factors independent from the domestic monetary policy. The growing costs of running business amidst pandemic, including higher transport charges and temporary disruptions in supply chains, also continue to add to inflation.

Statistical base effects related to fuel prices, together with the expected additional increases in waste disposal charges, will probably translate into a further rise in inflation in the coming months. At the same time, a progress in the vaccination programme and a gradual pacing out of the pandemic will ease the impact of supply-side factors – that are currently raising companies' cost – on inflation. Inflation will also be curbed by a lower wage pressure compared to the period before the pandemic.

Similarly as many other countries, Poland witnessed a worsening of epidemic situation in March and a tightening of the pandemic-related restrictions. Such developments negatively affect economic activity and sentiments in some sectors, although high-frequency indicators show that the impact of the pandemic on the economy has been significantly weaker than before.

Available data indicate that the coming quarters will see a recovery of economic activity, although the scale and pace of the recovery are uncertain. The further course of the pandemic and its impact on the economic situation in Poland and abroad continue to be the main source of uncertainty. The economic policy measures, including the easing of NBP's monetary policy introduced last year and the expected recovery in the global economy, will have a positive impact on the domestic economic situation. The pace of the economic recovery in Poland ~~may be reduced by the lack of a visible and more durable zloty exchange rate adjustment to the global pandemic shock and to the monetary policy easing introduced by NBP~~will also depend on further developments of the zloty exchange rate.

NBP will continue to purchase government securities and government-guaranteed debt securities on the secondary market as part of the structural open market operations. These operations are aimed at changing the long-term liquidity structure in the banking sector, ensuring the liquidity in the 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. In order to strengthen the impact of NBP's monetary policy easing on the economy, NBP may also intervene in the foreign exchange market. The timing and scale of the measures taken by NBP will depend on the market conditions. Furthermore, NBP will also continue to offer bill discount credit aimed at refinancing loans granted to enterprises by banks.

NBP's monetary policy mitigates the negative economic impact of the pandemic, supports economic activity and stabilises inflation at the level consistent with the NBP's ~~medium-term~~ inflation target in the medium term. Due to its positive impact on the financial situation of debtors, it is also conducive to the strengthening of financial system stability.