EmergingMarketWatch

Emerging Markets Central Bank Watch | Nov 18, 2020

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UKRAINE

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ARGENTINA

Rate hike cycle slows, BCRA looks unlikely to go much further for now

Argentina | Nov 04, 16:14

- **BCRA looks almost done with rate recalibration after big overnight rate hikes in October**
- **Treasury refusing to validate yields above BCRA's rates in T-bill auction also points to no more big hikes**
- **Market conditions call for higher rates, but BCRA likely waits for new IMF deal before passing large changes**

The rate hike cycle the BCRA put in motion at the start of October with weekly raises to its overnight rate seems to be slowing down already, and there is some evidence suggesting authorities will not go much further with hikes in the short term. In October, the BCRA raised its overnight repo by 12pps to 31.0%, but the first 11pps were hikes that took place in the first half of the month. The BCRA also introduced new 7-day reverse repos that it calibrated at 34.5% by the end of the month, but it cut the rate of its 7-day Leliq bills by 2pps to 36% and reduced the amount of them financial institutions can hold, looking to keep sterilization costs from rising.

The balance of these rate changes lifted the return financial institutions can get for investing their liquidity in the

BCRA by some 2pps, which is not enough to drive up interest rates on medium- or long-term deposits. The rates offered by the BCRA give returns that have been barely matching the controlled rate of inflation and depreciation, which is not good news when the consensus is there is a large devaluation and an acceleration of inflation coming up soon. However, the rebalancing of rates, in particular the 12-pp hike to the overnight rate, allow for a modest revival of the t+1 market and makes it harder for investors to leverage depreciation expectations by tapping on short-term liquidity that was too cheap.

The question is whether the BCRA will keep going with its rate hike cycle with the aim of reducing FX market pressure. Rate hikes slowed down at the end of October, which suggests the BCRA is close to reaching what it deems an appropriate level for now. The gap between the overnight rate and the 7-day rate could close a bit more, but a 1-2pps hike would do it. Adding to the data points suggesting the rate hike cycle may be close to done for now, the Economy Ministry held an auction for Treasury bills this week where it rejected bids that demanded for effective yields more than 0.7pps above the BCRA's Leliq bills. We remind that the BCRA and the Economy Ministry coordinate economic policy decisions, and the ministry seems to have more power at the moment.

Even though Argentina's macroeconomic conditions clearly call for higher rates, the BCRA may be withholding an aggressive policy change to line it up with upcoming revisions on fiscal policy. The core reason why the FX market is so imbalanced is that the government's entire economic policy mix is a mess, where the government is running a bloated fiscal deficit financed with money printing and with no clear plan to normalize the situation. In this context, no matter how aggressive the tightening of monetary policy may be, it will be insufficient to reverse the trend in the FX market if it isn't accompanied with actions on the fiscal front.

The expectation is that big monetary policy shifts could come with the announcement of a new government program with the IMF. Since the market has great distrust of the government and the BCRA's authorities, getting IMF support for any policy normalization program looks like a must. Authorities have been forecasting that a deal with the IMF will be ready by Mar-Apr 2021, but some news outlets have reported the negotiations could be hurried with the goal of having an agreement ready in December.

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Recent developments:

- City of Buenos Aires to add tax on BCRA instruments amid revenue war with govt, Nov 20, 20:54
- BCRA raises overnight rate 1pp to 32.0% and 7-day rate 2pps to 36.5%, Nov 13, 00:12
- Bank lending in local currency grows 10.2% y/y in October, FX loans fall 54.1%, Nov 09, 18:26
- Gross FX reserves fall USD 1.5bn m/m to USD 39.9bn in October, Nov 09, 17:50
- Guzman says govt builds 90-day bridge toward multi-year macro stabilization plan, Nov 05, 19:48
- EconMin pledges to limit monetary financing to ARS 800bn in Nov-Dec, Nov 02, 16:01
- BCRA seen raising overnight rate by 1pp and 7-day rate by 1.5pps, Oct 29, 20:19
- Breakdown of gross FX reseves, Oct 28, 13:47
- BCRA’s net reserves fall to just USD 5.3bn in September, Oct 26, 16:26

BRAZIL

BCB to hold Selic rate at 2.00% as it is calm about inflation, recovery

- **Next MPC meeting: Dec 9, 2020**
- **Current policy rate: 2.00%**
- **EmergingMarketWatch forecast: hold**

The BCB's rate-setting Copom is set to keep its Selic rate at the current level of 2.00% at the last policy sitting this year on Dec 9 as the BCB is calm about inflation and the economy is recovering more strongly than expected. The government did just recently sharply increase its IPCA inflation forecast to 3.05% for 2020 from the 1.83% given in the September forecasts, but that remains well below the BCB's target of 4.00% for 2020. The Economy Ministry said the adjustment is due to rising food prices. But BCB Governor Roberto Campos Neto has downplayed higher inflation by saying it is temporary. He has said the inflation pressure seen is linked to the exchange rate, the emergency aid implemented by the government, and the substitution effect caused by the coronavirus spread. Analysts expect IPCA to close 2020 at 3.25% before slowing slightly to 3.20% in 2021.

On economic activity, Brazil's government narrowed slightly on Tues. its GDP contraction forecast to 4.5% for 2020 from 4.7% before, citing better-than-expected economic activity in Q3. It said the latest data confirmed a strong recovery of the industrial and retail sectors while the services sector showed a "good performance" after the sharp contraction seen in Q2. It added that industry and retail would be responsible for the resumption of the economy in Q3, while the services sector would be responsible for the improvement expected in Q4. For their part, analysts polled by the BCB this past week kept their 2020 GDP forecast at a 4.66% contraction.

Analysts continue to expect the Copom to keep the key Selic rate at 2.00% for the rest of this year. Analysts also still expect a tightening cycle to start in 2021, with the key rate to be raised by 75bps to 2.75%.

Overall, Campos Neto said recently the BCB's rate-setting Copom will only react with hikes if the inflation target is threatened. But he has noted the current pressures on inflation are transitory and for now no hikes are needed. Campos Neto's comments continue to suggest that the Copom will hold rates. The BCB has also said that though further room to cuts was minimal, if it exists, and that any future adjustments to its policy will depend on the fiscal trajectory and inflation outlook. Given this scenario, the BCB is very likely to hold rates through year-end and going into 2021.

Copom structure and latest voting results

Board member	Position	Latest vote
Roberto Campos Neto	Governor	Cut
Fabio Kanczuk	Director of Economic Policy	Cut
Carolina de Assis Barros	Director of Administration	Cut
Maurício Costa de Moura	Director of Institutional Relations and Citizenship	Cut
Otávio Ribeiro Damaso	Director of Regulation	Cut
Paulo Sérgio Neves de Souza	Director of Inspection	Cut
Bruno Serra Fernandes	Director of Monetary Policy	Cut
Joao Manoel Pinho de Mello	Director of Financial System and Resolution	Cut
Fernanda Feitosa Nechio	Director of International Affairs and Corporate Risk Management	Cut

Source: BCB

BCB Inflation Reports (September is the latest)

Latest Copom policy sitting statement

Latest policy sitting minutes

Selic interest rate historical

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Recent developments:

- Campos Neto reiterates BCB is calm about inflation, Nov 17, 18:15
- Analysts continue to raise IPCA inflation forecasts for 2020 and 2021, Nov 16, 15:48
- Analysts continue to raise IPCA inflation forecasts for 2020 and 2021, Nov 09, 16:04
- BCB's Kanczuk says current inflationary pressure won't have policy impact, Nov 06, 21:10
- Campos Neto says conditions for forward guidance are still satisfied, Nov 03, 20:56
- Analysts raise very slightly IPCA inflation forecasts for 2020 and 2021, Nov 03, 16:06
- Copom reiterates rate outlook is tied to fiscal, inflation trajectory - minutes, Nov 03, 16:01
- BCB keeps policy rate at 2.00%, as expected, Oct 28, 23:51
- Analysts hold Selic fcasts at 2.00% for '20, change tightening pace for '21-23, Oct 26, 15:38

CZECH REPUBLIC

CNB to keep interest rates stable, to intervene only in worst-case scenario

Czech Republic | Nov 18, 15:27

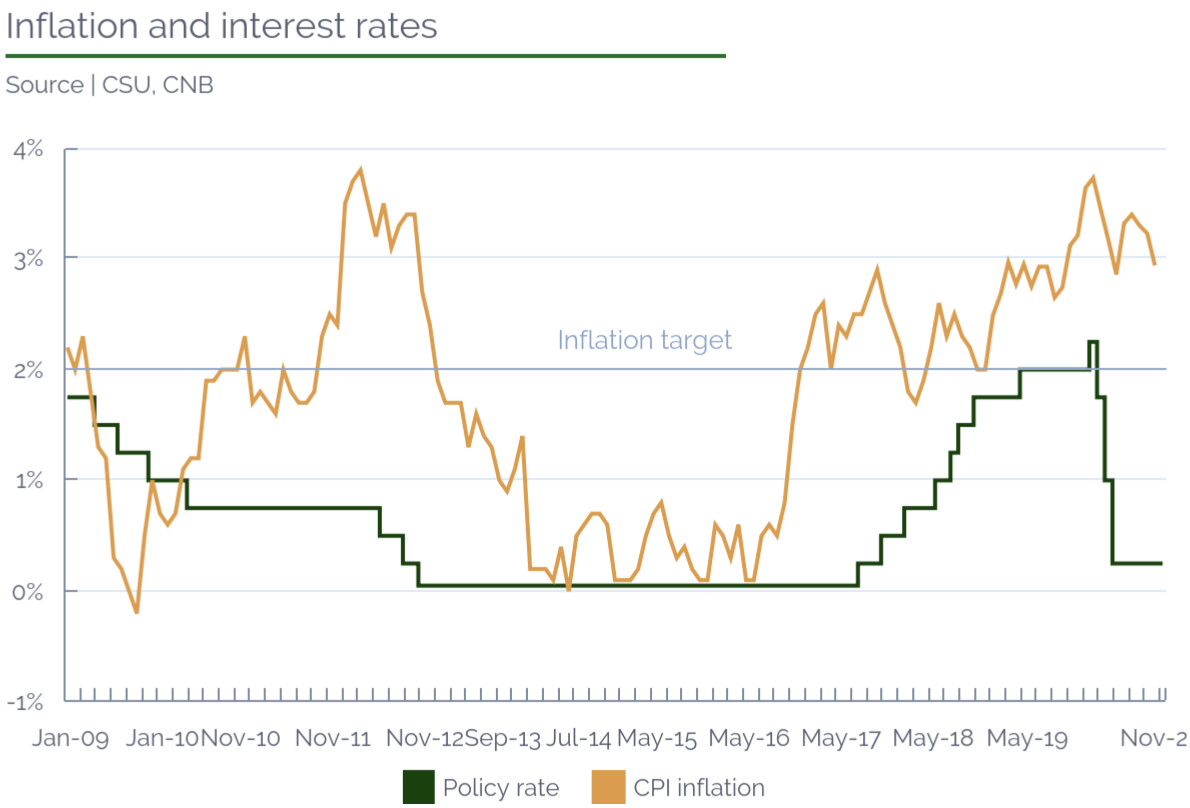
- **Next MPC meeting: Dec 17, 2020**
- **Current policy rate: 0.25%**
- **CEEMarketWatch forecast: Hold**

Rationale: The CNB was much more straightforward in its message after the MPC meeting on Nov 5, leaning heavily towards keeping interest rates stable for a long period of time. The main risks to the inflation forecast are seen as anti-inflationary, primarily related to a worse pandemic development than currently expected. A weaker national currency and higher production costs are seen to produce inflationary pressure in the months to come. However, the combination of a demand shock, easing labour market conditions and respectively lower wage growth, as well as the absence of new administered price hikes will keep inflation on the forecasted path. The CPI print for October confirms that view, as inflation returned to the CNB's tolerance band (2%+/-1pp), easing to 2.9% y/y, and all inflation components behaved as expected by the forecast.

Furthermore, CNB governor Jiri Rusnok said he expected interest rates could remain stable throughout the entire 2021. He added there was a significant majority on the CNB board that didn't see urgency to intervene under present conditions, which was confirmed by the meeting's minutes. In fact, only Vojtech Benda, the most pronounced hawk on the board, said he saw rate hikes starting in Q2 2021 as consistent with the projected recovery next year, but he remains in the minority. Naturally, circumstances can change quickly, as we have seen earlier this year. However, any change would be towards further easing rather than normalisation of monetary policy.

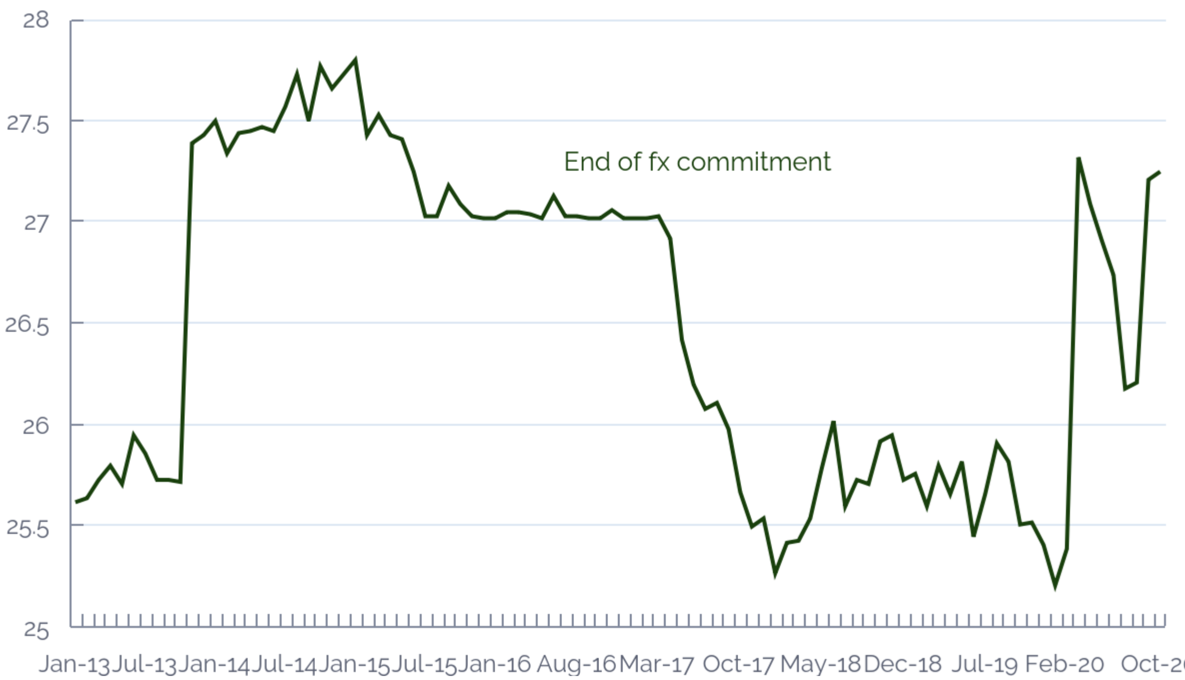
In fact, normalisation of monetary policy is likely to come later than previously anticipated, given that the CNB worsened its outlook for 2021 in its latest forecast, expecting GDP growth at only 1.7% and that the economy won't reach its pre-crisis level before the end of 2022. With that in mind, we see considerable odds that interest rates will indeed remain the same. Again, this is not completely guaranteed, as the economy could recover faster than anticipated, similar to Q3 2020, when flash GDP data beat expectations. However, we don't see a change in monetary policy stance unless there is strong evidence that economic recovery is producing too much inflationary pressure.

As far as the possible use of unconventional monetary policy is concerned, Rusnok didn't mention anything about it, which makes us believe it wasn't on top of the agenda during the latest MPC meeting. There was nothing particularly mentioned during the MPC meeting, only that a worst-case scenario might require unconventional measures. Until then, we expect that the CNB will have no reason to intervene, as long as inflation develops along the path forecasted in the latest CNB forecast. Given that the forecast puts inflation only slightly above the 2% target throughout 2021, we expect that interest rates will remain unchanged at their current level until the end of 2021.



EUR/CZK exchange rate, eop

Source | CNB



CNB board summary

Board member	Overall Bias	Latest vote	Latest comment	Date
Governor Jiri Rusnok	neutral	hold	neutral (no need for further monetary expansion)	Nov 12, 2020
Vice Governor Marek Mora	hawkish	hold	neutral (second pandemic wave could hit households harder)	Nov 5, 2020
Vice Governor Tomas Nidetzky	neutral	hold	neutral (inflationary pressure to fade away after labour market cooldown)	Nov 5, 2020
Vojtech Benda	hawk	hold	hawkish (gradual rate hikes starting in Q2 2021 would be consistent with expected recovery)	Nov 5, 2020
Oldrich Dedek	dove	hold	slightly dovish (lower external risk after US election but still solid anti-inflationary pressure at home)	Nov 5, 2020
Tomas Holub	hawkish	hold	neutral (anti-inflationary risk is stronger than in forecast)	Nov 5, 2020
Ales Michl	hawk	hold	neutral (regards money supply as sufficient)	Nov 5, 2020

Source: CEEMarketWatch estimates based on statements and voting behaviour of board members

Further Reading

CNB board statement from latest MPC meeting, Nov 5, 2020

Q&A after latest MPC meeting, Nov 5, 2020

Minutes from latest MPC meeting, Sep 23, 2020

Inflation Report, November 2020

Macroeconomic forecast, November 2020

Meeting with analysts, Nov 6, 2020

CNB board profile

CNB board members' presentations, articles, interviews (Czech)

CNB board members' presentations, articles, interviews (English)

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Recent developments:

- No need for further monetary expansion - CNB governor Rusnok, Nov 16, 08:14
- CNB board sees no immediate need to change rates - minutes, Nov 13, 14:29
- CNB board majority doesn't see urgency to intervene - CNB governor Rusnok, Nov 06, 14:17
- CNB unanimously keeps policy rate stable, pandemic still a big risk, Nov 05, 17:31
- CNB leaves policy rate unchanged at 0.25%, as expected, Nov 05, 15:37
- Domestic economists expect CNB to leave interest rates unchanged on Nov 5, Nov 02, 08:55
- CNB ready to intervene when it needs to - CNB governor Rusnok, Oct 27, 11:59
- Rates set at a more or less adequate level - CNB's Dedek, Oct 27, 08:25
- CNB's Michl prefers CNB to remain in a wait-and-see mode, Oct 26, 08:33

HUNGARY

MPC to remain cautious in easing liquidity policy despite favourable inflation

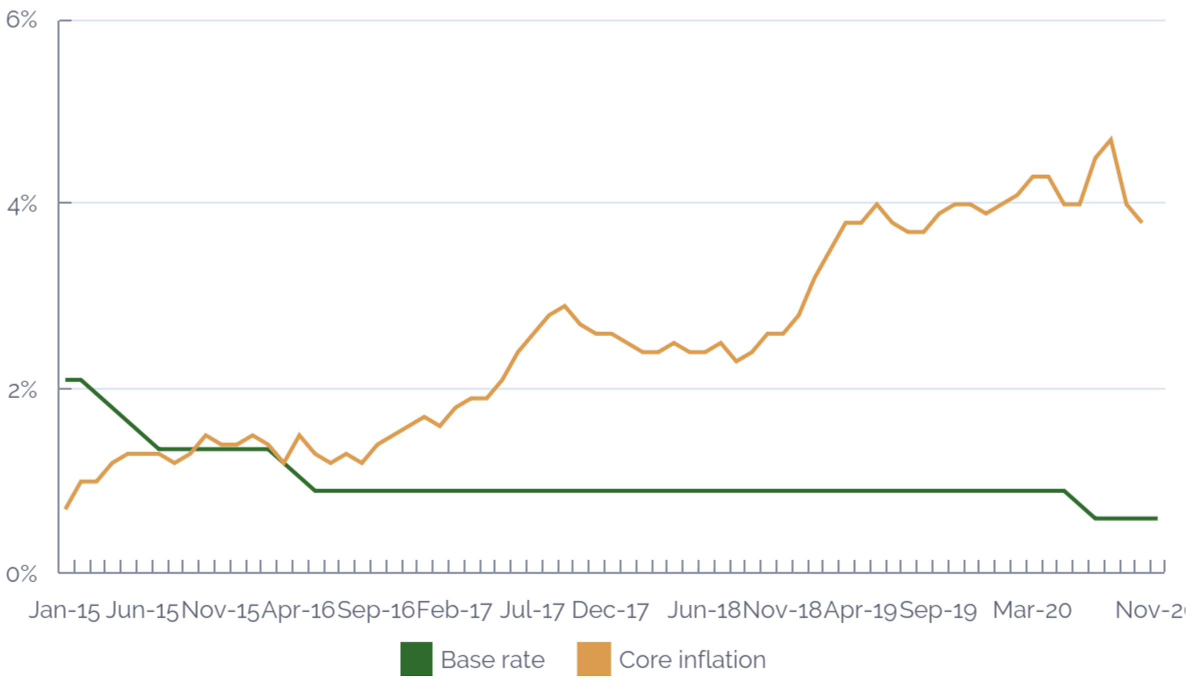
Hungary | Nov 17, 17:57

- **Next MPC meeting: Dec 15, 2020**
- **Current policy rate: 0.60%**
- **CEEMarketWatch forecast: Hold**
- **Rationale: MPC maintains concern with forint weakness**

Inflation data has been quite favourable in the past couple of months, surprising on the downside, and the forint exchange rate has also gained ground. The MPC, however, continued with its wait-and-see stance on its November rate-setting meeting, which we think implies caution in easing liquidity conditions in the face of persistent risks for the forint especially after Hungary's veto on the EU budget. The monetary policy guideline was not changed either as the MPC reiterated satisfaction with short-term liquidity conditions and maintained its view for the need for expansionary balance sheet policies in the longer term. This should mean that possible easing of liquidity conditions is not too likely in the next months although consistent slowdown in underlying inflation and stabilisation of the forint exchange rate away from its low levels from the previous month could provide the MPC with room for relaxing. The potential loosening, however, will not come through the base rate and we rather expect the MPC to first close the gap between the one-week deposit rate and the policy rate by cutting the one-week deposit rate. The MPC has said that the gap will remain as long as warranted by the inflation outlook.

Base rate and inflation (%)

Source | NBH, KSH



On its November meeting the MPC maintained that risk aversion towards emerging markets remained the biggest upside risk to the inflation outlook. We think that the policy statement implied continued concerns with the forint level and its potential impact on inflation. The heightened financial market volatility after Hungary's EU budget veto likely means that the MPC will keep the one-week deposit rate above the base rate in the short term. At the same time, the MPC made good on its signal for further balance sheet expansion and approved an increase of the budgets of the cheap lending scheme FGS Go! and the quantitative easing programme. The initial budget for both programmes was doubled to HUF 2,000bn. The cheap lending scheme volume had exceeded the initial HUF 1,000bn mark by mid-November while government security purchases are currently close to HUF 800bn. The expansion of the two programmes aims to foster the economic recovery and support the stability of the government securities market, the MPC said. Its strategy towards the low growth-high inflation dilemma has been to keep short-end liquidity conditions relatively tight while employing unorthodox tools to support the economy through balance sheet expansion and we expect this policy to be maintained in the short term, given the increased downside risks to growth with the second epidemic wave and the related lockdown measures.

MPC Members

Name	Institution	Views	Last vote, Oct 2020
Gyorgy Matolcsy, governor	President	dovish, trend-setter	Hold
Mihaly Patai, deputy governor	President	dovish	Hold
Barnabas Virag, deputy governor	President	dovish	Hold
Csaba Kandracs, deputy governor	President	dovish	Hold
Gyorgy Kocziszky	Parliament	strongly dovish	-
Kolos Kardkovacs	Parliament	dovish	Hold

Gyula Pleschinger	Parliament	conservative dove	Hold
Bianka Parragh	Parliament	dovish	-
Gusztav Bager	Parliament	dovish	Hold

Source: NBH, CEEMarketWatch estimates

Post-meeting MPC statement from November

Minutes from October rate-setting meeting

Decision to review the monetary policy framework, introduce quantitative easing, Apr 7

Latest Inflation Report - Q3/2020

Strategic framework for unorthodox monetary instruments affecting short-term yields

MPC meeting calendar 2020

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Recent developments:

- NBH sterilises HUF 2,881.6bn of bank liquidity on weekly auction, Nov 19, 17:15
- NBH provides HUF 40.0bn of collateralised loans on weekly tender, Nov 18, 18:21
- NBH maintains pace of quantitative easing programme on weekly tender, Nov 17, 17:39
- MPC keeps base rate unchanged at 0.90% on November rate-sitting, Nov 17, 16:42
- Parliamentary committee approves Gottfried for external MPC member, Nov 17, 16:15
- MPC member Gusztav Bager reportedly to resign, Nov 17, 12:55
- NBH continues to keep forint-liquidity swap stock unchanged at weekly tender, Nov 16, 18:18
- Forint liquidity of banking system declines in October, Nov 13, 10:34
- One-week deposit swells to record high level at weekly tender, Nov 12, 16:51
- NBH allocates HUF 4.0bn of collateralised loans on weekly tender, Nov 11, 18:08
- NBH buys HUF 40.0bn of government securities on weekly tender, Nov 10, 18:36
- NBH provides HUF 20.1bn of forint swaps, Nov 09, 18:10
- NBH accepts HUF 2,252.5bn into its one-week deposit instrument, Nov 05, 17:32
- Central bank allocates HUF 40.0bn of five-year loans to banks, Nov 05, 08:41
- MPC keeps monetary conditions unchanged with unanimous vote in October, Nov 04, 15:58
- NBH reduces government security purchases on tender to HUF 20.0bn, Nov 03, 17:57
- NBH to limit mortgage bond purchases to green bonds, Nov 03, 17:04
- NBH to increase balance sheet above 38% of GDP – NBH governor Matolcsy, Nov 02, 17:57
- NBH keeps forint-liquidity swap stock practically unchanged, Nov 02, 17:37
- NBH keeps one-week deposit rate at 0.75% on weekly tender, Oct 29, 18:17
- Central bank provides HUF 30.0bn of five-year loans on weekly auction, Oct 28, 18:19
- Central bank profit could be spent on dividends or put in reserves – Matolcsy, Oct 28, 10:40
- NBH purchases HUF 40.0bn of government securities on regular auction, Oct 27, 16:32
- NBH provides HUF 52.6bn of forint-liquidity swaps on weekly tender, Oct 26, 17:44

INDIA

Elevated inflation, growth uptick to refrain MPC from rate cut until Q1 FY21

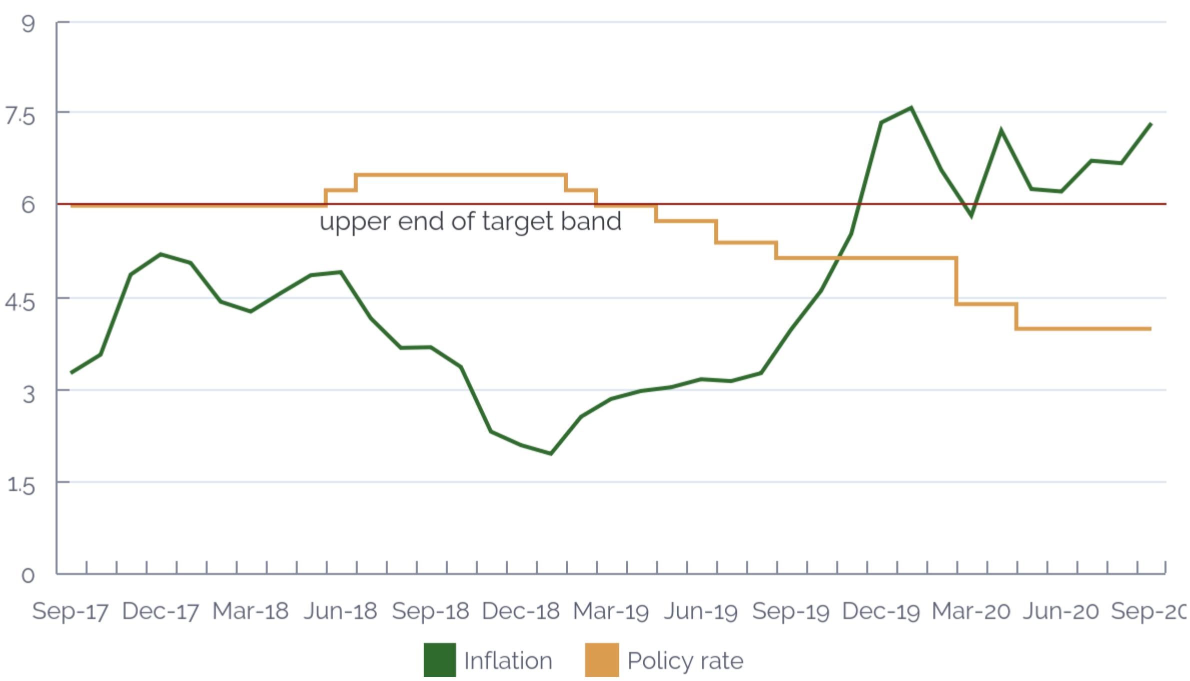
India | Nov 04, 16:27

- **Next policy meeting: Dec 4**
- **Current policy rate: 4.0%**
- **Our forecast: Hold**
- **Rationale: Elevated headline inflation as well as signs of economic recovery**

We expect the MPC to hold the repo policy rate at 4.0% in the next meeting on Dec 4 as headline inflation continues to breach the Reserve Bank of India's (RBI) target of 4 (+/-2)% y/y. As minutes of the meeting showed that although almost all the members of the committee saw room for further rate cuts, they suggested that inflation needs to ease for them to use that space. The MPC expects the inflation to ease to 4.0-5.5% y/y in H2 (Oct-Mar) FY21 and further to 4.3% y/y in the first quarter of next fiscal year as the economy unlocks and COVID-19 induced shocks dissipate gradually. Thus, we believe that the rate-setting panel will maintain status quo on the policy rate at least until Q1 FY22 when inflation slows close to the central bank's target.

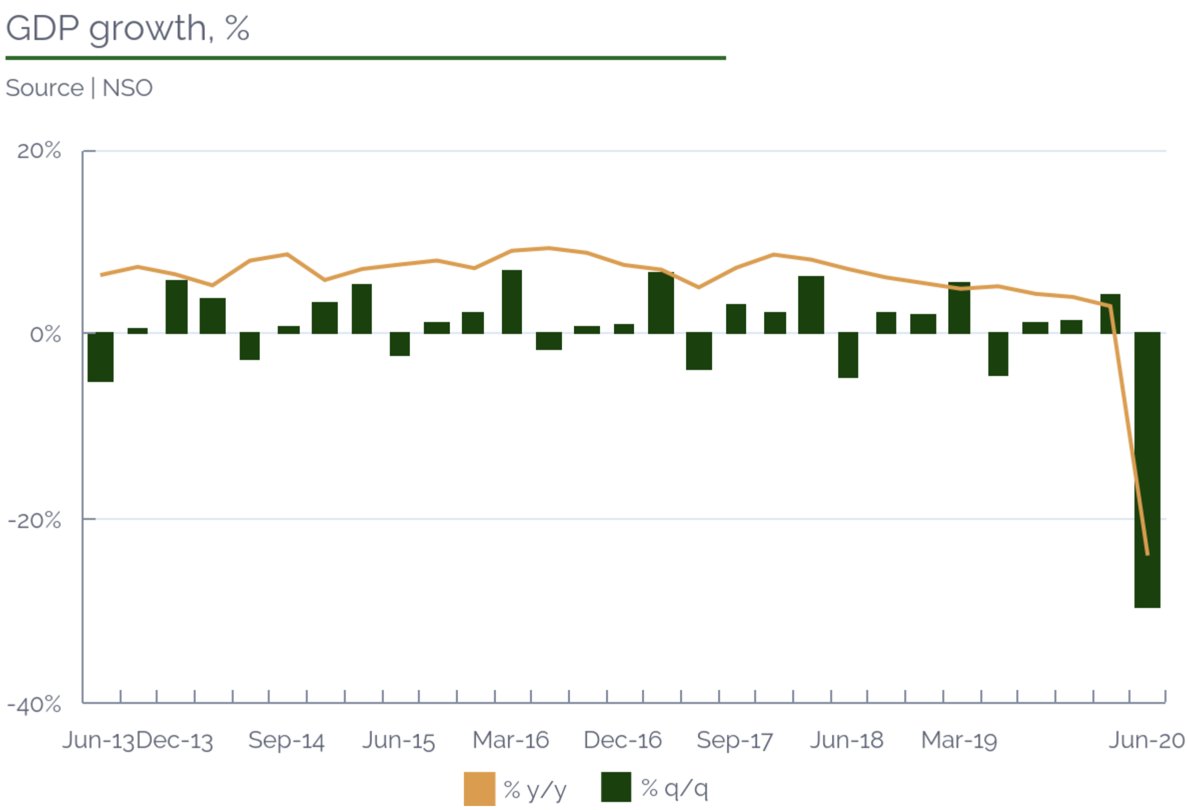
CPI inflation (% y/y) and policy rate (%)

Source | NSO



Furthermore, the MPC also committed to keeping its monetary policy stance accommodative until at least the end of FY22 (ending March 30, 2022), adding that the current level of inflation "can be looked through at this juncture while setting the stance of monetary policy". This indicates that the committee has shifted its focus to revive the economy, which is expected to shrink by 9.5% in FY21 (ending Mar 31, 2021) and is likely to rebound strongly to 20.6% y/y growth in Q1 (Apr-Jun) FY22.

Having said that, growth has rebounded in recent months considering the improvement in certain high-frequency indicators, although it may be due to pent-up demand and increase in consumption amid the festive season and therefore, should be regarded with caution. The Manufacturing PMI jumped to over a decade high while Services PMI rose to an eight-month high in October, signalling robust expansion in the country's private sector activity. Vehicle sales in September showed continued recovery and the sales growth will accelerate further in October as production data of different auto manufacturers suggest. Moreover, consumption-based GST revenue climbed to an eight-month high in October, indicating the trajectory of recovery of the economy. The sharp slowdown in fuel consumption contraction, as well as the import decline, points to return of economic normalcy.



Lastly, India's external position is likely to be relatively stable in the near- to medium-term. The country is projected to post a slight current account surplus of 0.3% of GDP in FY21 compared to a 0.9% deficit in FY20 on the back of lower oil prices and weak domestic demand. This coupled with foreign capital inflows has led the central bank's foreign exchange reserves to rise to USD 560.5bn as on Oct 23, up from USD 479.5bn at end-April. Besides the capital inflows, the expansion in reserves also came on account of the RBI's dollar buying intervention in the spot forex market to keep the USD/INR range-bound between 73-75. The RBI's data shows that it purchased net USD 35.5bn between May and August. India's currency weakened by 1.7% between Aug 21 and Oct 19 to USD/INR 72.1; however, the losses have been reversed since then and the local currency currently stands at USD/INR 74.4.

Month-end exchange rate (USD/INR)

Source | RBI

All in all, given elevated inflation as well as signs of economic recovery, we believe that the MPC will again hold the policy rate at 4.0% in its next meeting.

MPC members

Name	Position	Appointed	Latest decision
Shri Shaktikanta Das	Governor	Dec-18	Hold
Michael D. Patra	Deputy Governor	Jan-20	Hold
Mridul K. Saggar	Executive Director	July-20	Hold
Ashima Goyal	Professor, Indira Gandhi Institute of Development Research	Sep-20	Hold
Jayanth R. Varma	Professor, Indian Institute of Management, Ahmedabad	Sep-20	Hold
Shashanka Bhide	Senior Advisor, National Council of Applied Economic Research, Delhi	Sep-20	Hold

Source: RBI

Further Readings

Minutes from MPC meeting, Oct 2020

RBI Annual Report 2019-20, Aug 2020

Financial Stability Report, July 2020

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Recent developments:

- MPC warns of fragile recovery as it focuses on growth – minutes, Oct 26, 08:58

INDONESIA

Bank Indonesia to hold key rate by year-end despite room for more cuts

Indonesia | Nov 11, 17:45

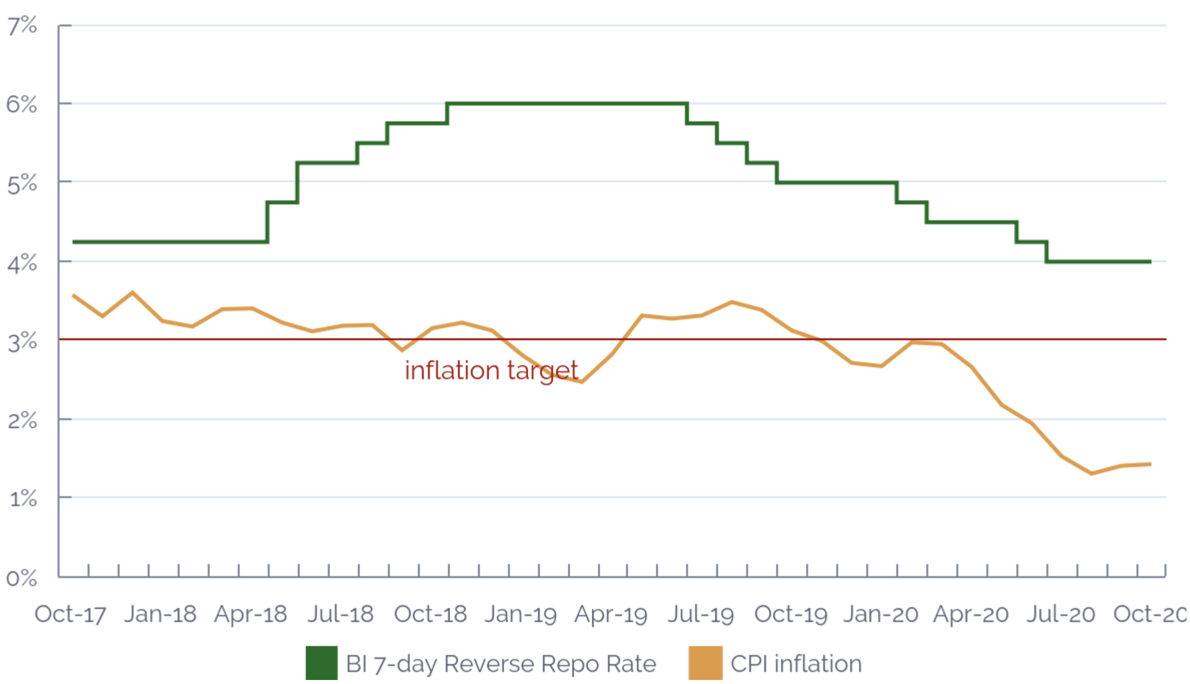
- **Next policy meeting: Nov 18-19**
- **Current policy rate: 4.00%**
- **Our forecast: Hold**
- **Last decision: Hold (Oct 12-13)**
- **Rationale: Bank Indonesia to support economic growth through QE, focus on maintaining rupiah's stability**

We expect Bank Indonesia to hold the key rate at 4.00% until the end of the year despite that BI governor Perry Warjiyo sees room for more cuts. In the last three MPC meetings (Aug-Oct), Bank Indonesia kept the key rate flat in line with market expectations. After four rate cuts this year, Bank Indonesia has now focused on the rupiah's stability as the local currency had been losing ground against the USD since July up to mid-October, though it now sits at a five-month high. On the other hand, efforts to support economic growth reflect quantitative easing as the central bank purchases government bonds on the primary market.

However, there is some possibility for a 25bp rate cut even by the end of the year given the sharp appreciation of the rupiah since mid-October, as it has gained about 5.2% against the USD in the backdrop of the US Presidential election. However, we expect BI to wait at least until December to see if the exchange rate will stabilize at the current level or return to USD/IDR 14,500-14,800.

Key rate and CPI inflation

Source | Bank Indonesia, BPS



We remind that the central bank has so far cut the key rate by 100bps since the beginning of the year. The central bank first cut the key rate by 25bps in February, followed by the same cuts in March, June and July. The first two rate cuts in February and March were pre-emptive as the COVID-19 outbreak unfolded, after which the central bank introduced some non-rate monetary easing through reducing the reserve requirements for commercial banks. The latter two cuts followed the worse-than-expected economic downturn in Q2.

The central bank's focus also shifted gradually from inflation concerns towards exchange rate stability in April and May and then shifted again to supporting economic growth in June and July, before exchange rate stability became a concern since. In addition, the central bank now focuses on QE (government debt purchases on the primary market) as the main tool to support economic growth rather than through further key rate cuts.

GDP growth

Economic growth largely disappoints this year after it slowed to 2.97% y/y in Q1, followed by a 5.32% y/y decline in Q2 on the back of the lockdowns and a slower 3.49% y/y GDP contraction in Q3. The Q3 data largely disappointed as the contraction was above market expectations and the government's projection. As a result, the economy entered a technical recession and it is set to contract in 2020 for the first time since the Asian crisis.

As a result, Bank Indonesia committed to purchasing IDR 574.6tn government bonds on the primary market, thus effectively monetizing the deficit, in a bid to help the government revive economic growth. Some IDR 397.6tn out of those will be zero-coupon bonds sold at face value, which will finance part of the government's economic recovery programme after the COVID-19 crisis. So far, Bank Indonesia has purchased IDR 289.9tn government bonds as of Oct 8.

Exchange rate stability

The central bank previously prioritized exchange rate stability as the rupiah depreciated sharply against the USD in Mar/Apr, but it regained some ground in May and June, mitigating the depreciation to only about 1.4% in H1. However, since July the local currency had been depreciating up until mid-October, when it stood nearly 6% lower than at end-2019, though since then it has gained about 5.2% as the USD gradually weakened. Notably, in the last three MPC decisions (all of them being a hold), Bank Indonesia put exchange rate stability as the main goal of monetary policy in light of the low inflation environment and the focus on QE to support economic growth.

CPI inflation inched up to 1.44% y/y in October from 1.42% y/y in September, but it still remains below the lower end of the central bank's 3+/-1% target range. As a result, the central bank is no longer concerned with inflation, but the focus has shifted to supporting growth and maintaining the exchange rate stability. At any rate, once the oil price recovery gains some pace and domestic demand starts to recover, we expect inflation concerns to emerge once again on the central bank's agenda. Bank Indonesia expects CPI inflation to remain within its target range in 2020-2021.

Conclusion

Looking forward, we expect that the central bank will keep the key rate on hold in the short term due to concerns about further depreciation of the local currency in case of more rate cuts. At any rate, QE has emerged as the main tool to support economic growth now, with the central bank committing to purchase IDR 574.6tn government bonds on the primary market. As a result, the central bank likely considers fiscal policies more effective at stimulating the economy than rate cuts.

Further reading

Last MPC press release - https://www.bi.go.id/en/ruang-media/siaran-pers/Pages/sp_227520.aspx

Calendar of MPC meetings - https://www.bi.go.id/en/ruang-media/agenda/rapat-dewan-gubernur/Default.aspx

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Recent developments:

- Bank Indonesia cuts key rate by 25bps to 3.75%, Nov 19, 10:36
- Bank Indonesia likely to keep key rate on hold – consensus poll, Nov 16, 18:48
- Bank Indonesia sees room for further rate cut to boost growth – BI governor, Nov 12, 09:38
- Bank Indonesia governor sees room for more rate cuts, Oct 27, 19:01

ISRAEL

MPC likely to remain on hold on Nov 30

Israel | Nov 18, 17:58

- **Current policy rate: 0.10%**
- **Next monetary policy meeting: Nov 30, 2020**
- **Expected decision: Hold, monetary policy to remain accommodative well into 2021**

We do not expect a rate cut or any further easing of the monetary policy in the next rate-setting meeting on Nov 30 since the exit from the second lockdown proceeds smoothly for now. Also, different indicators confirm that the adverse effects from the second closure are overall milder than the damages in the spring lockdown and the recovery is ongoing and the government keeps its pledge the reopening to be very cautious and gradual and it appears that other wider lockdowns and closures might be avoided. Thus, the rate-setters would have good arguments to take a wait-and-see stance in the next meeting on Nov 30. We can't fully rule out some kind of other measures to support the economy though if the BoI discovers that some markets are not working properly. However, any potential move is not likely to encompass a rate cut. Deputy governor Andrew Abir said in a rare statement for Reuters after the Oct 22 on-hold decision that the monetary policy is already too loosened and indicated that there might not be further measures to relax it further if recovery proceeds in line with forecasts. He did say though that the monetary policy will remain accommodative well into 2021, which is in line with the overall dovish bias of the MPC in the past months and latest data. He also said that a rate cut is not among the considered moves as it might bring opposite to the desired effects due to psychological issues. Yet, he did not rule out a reduction in the policy rate in case of a significant deterioration.

Monetary policy stance

Source | BoI, CBS

Judging from early data, the BoI estimates that the second lockdown would have smaller impact on economic activity than the first one so it did not deteriorate its forecast to the extent of the more pessimistic scenario drafted in August, which included a second closure of the economy. Nevertheless, the economy will take a severe hit this year and it is still doubtful if it would record a notable recovery in 2021 because the uncertainties are too high. Yet, the prospects have improved with the positive developments in creating vaccines and the efforts of the local authorities to secure enough for the population as early as possible, which might mean return to normality already in the first part of 2021. The inflation environment remains subdued and it is not expected to change much in the following few months since the BoI believes that demand-side effects will prevail pulling down inflation further. Yet, consumption seems to be properly recovering and inflation in October came in at 0.3% m/m, at the higher end of the market expectations. Moreover, the shekel remains strong and the BoI does not intend to intervene substantially as it sees its development in line with fundamentals, Abir also said. Overall, the BoI forecast does not predict returning to the 1-3% target band by the end of 2021 and considering also the risk for a weak or no recovery in 2021, the considerations are strongly in favour of a continuation of an accommodative monetary policy.

BoI Board Summary

Board member	Appointed	Term ends	Bias*
Governor: Amir Yaron	Dec-18	Dec-23	likely balanced
Deputy governor: Andrew Abir	Oct-17	Oct-21	Dovish
BoI member: Michel Strawczynski	Feb-20	Feb-25	n.a.
External member: Reuben Gronau	Oct-11	Oct-21	Hawk
External member: Moshe Hazan	Oct-17	Oct-21	Dovish
External member: Zvi Hercowitz	Oct-17	Oct-21	Balanced

Note: *CEEMarketWatch assessment made on media reports and speeches by MPC members

Source: BoI, CeeMarketWatch

Board statements and press briefings

Minutes from MPC meetings

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Latest BoI macroeconomic forecast, October 2020

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The Monetary Committee

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Recent developments:

- BoI might increase share of equities in forex portfolio – deputy governor, Nov 23, 08:45
- Forecasters' keep inflation expectations for next year at 0.4% at mid-Nov, Nov 18, 16:44
- One MPC member continues to push for cut in policy rate, Nov 05, 17:55
- Government bond purchases remain most attractive instrument in October, Nov 05, 16:25
- Supervisor of Banks cuts leverage ratio requirement by half percentage point, Nov 03, 14:26
- Professional forecasters up 1y inflation expectations up to 0.4% by end-October, Nov 02, 07:15
- Deputy governor sees no need for rate cut, further easing might not be necessary, Oct 26, 16:06

SOUTH KOREA

BOK likely to stay on hold on Nov 26 as housing market concerns loom

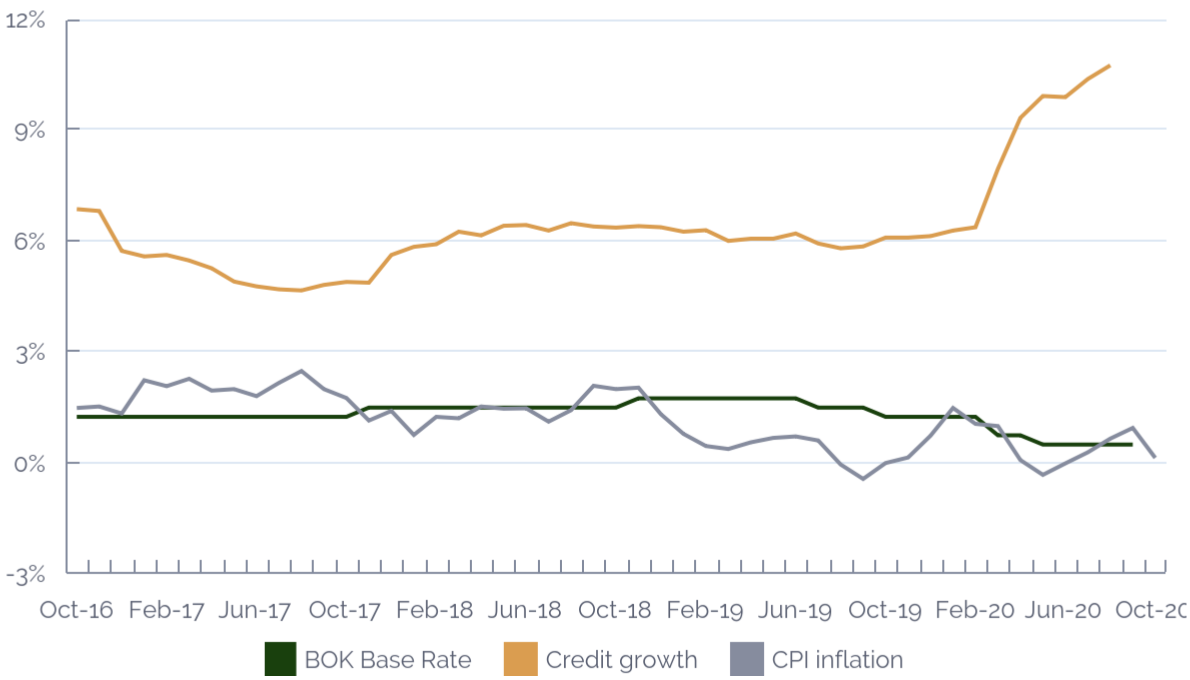
South Korea | Nov 18, 15:33

- **Next policy meeting: Nov 26**
- **Current policy stance: 0.50%**
- **Our forecast: Hold**
- **Rationale: BOK not to risk further stimulus because it can fuel housing inflation**

BOK will likely hold its Base Rate at 0.50% at the upcoming meeting on Nov 26 after delivering cumulative rate cuts worth 75bps since the beginning of the year, in our view. Most recently, the BOK decided unanimously to hold the Base Rate at 0.50% at the previous meeting on Oct 14. In our view, the current stance of monetary policy is appropriate since further easing might risk exacerbating housing market inflation. In addition, the solid GDP growth of 1.9% q/q in Q3 led by exports removes pressure from BOK to act in the near term.

Key interest rate, credit growth and inflation

Source | BOK



In the minutes from the Oct 14 meeting, all MPC members indicated that they consider the current key interest rate of 0.50% to be appropriate. The minutes also confirmed that most MPC members remain concerned about the rising household debt and housing prices. In our view, the BOK acknowledges that the ongoing housing price melt-up has been worsened by the coronavirus-induced monetary policy easing and the injection of extra liquidity into the banking system.

Meanwhile, the coronavirus pandemic in South Korea is once again worsening, but the situation seems still under control. Most recently, the government decided to tighten the social distancing measures to Level 1.5 on Oct 17 in the Seoul area, introducing further restrictions for businesses. However, the impact on the economy will remain relatively small at least until the government raises them further to Level 2 under the current five-tier social distancing system.

If the BOK decides that the economy needs a substantial amount of monetary stimulus this will likely come in the form of a bond purchase programme, in our view. BOK governor Lee reiterated on Jul 16 that the central bank may start a bond purchase programme if further monetary policy loosening is needed considering that the current rate is close to the lower bound. The BOK hasn't engaged in QE programme in contrast to the other major central banks even though it provided unlimited liquidity to banks through repo operations and performed several purchases of KTB bonds through auctions.

Bank lending growth remained elevated at 10.9% y/y in September which raises concerns about the sustainability of household debt in particular. Meanwhile, CPI inflation moderated to 0.1% y/y in October from 1.0% y/y in September due to communications fee subsidies implemented by the government. Core inflation also eased notably to -0.3% y/y in October, but should bounce back in the following months as the communications subsidies were just a one-off. PPI deflation recently moderated to -0.4% y/y in September from -0.5% y/y in August, confirming that deflationary forces peaked in May.

The latest economic forecasts made by BOK on Aug 27 are for a -1.3% fall in 2020 followed by a 2.8% rebound in

2021, which is a downgrade from the previous forecasts for -0.2% contraction in 2020. The BOK reaffirmed the August forecast in the latest Oct 14 meeting minutes. The latest export data for September and October remains encouraging due to robust growth of exports to China, however, exports to US and Western Europe will likely weaken in Q4 driven by the reintroduction of lockdowns.

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MALAYSIA

BNM likely to provide more stimulus in early 2021 as recovery remains fragile

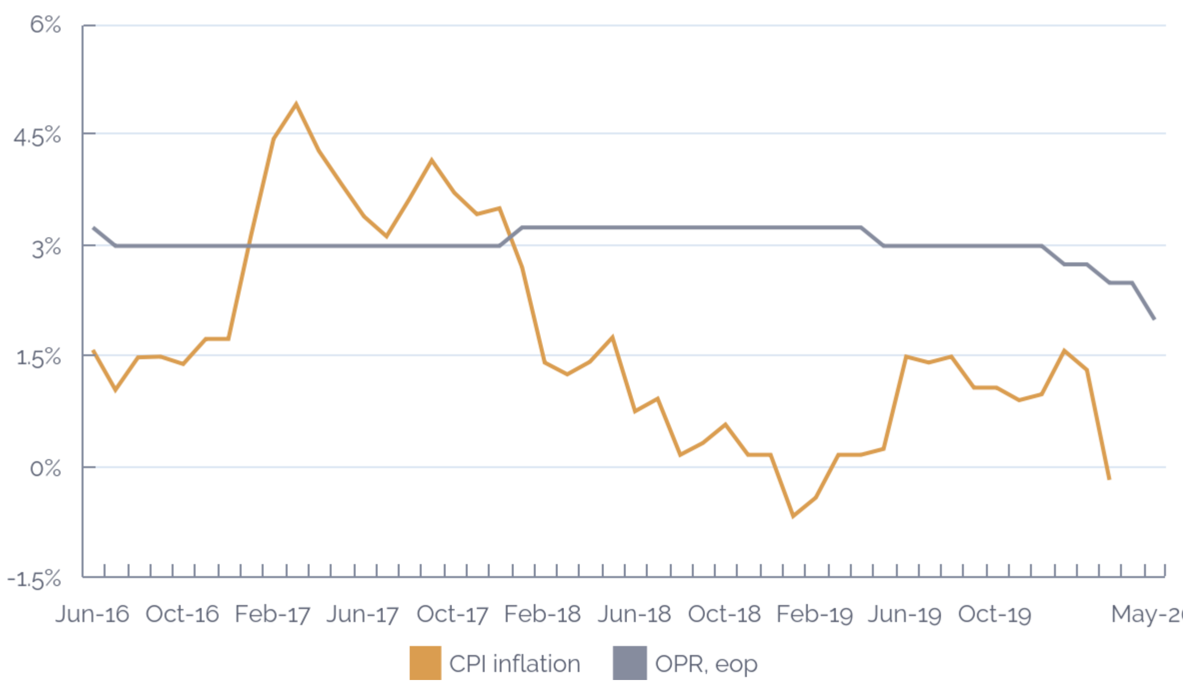
Malaysia | Nov 17, 11:26

- **Next policy meeting: Jan 20**
- **Current policy rate: 1.75%**
- **Our forecast: Most likely cut rate by 25bps**
- **Rationale: COVID-19 resurgence jeopardizes recovery, even though full lockdown is still off the table**

BNM will likely cut the Overnight Policy Rate by 25bps at its upcoming meeting on Jan 20 due to the resurgence of COVID-19 cases in the country and the looming political instability. The BNM has cut cumulatively the Overnight Policy Rate (OPR) by 125bps since the beginning of the year and delivered a rate cut in four of the six regular MPC meetings in 2020. In the latest Nov 3 meeting, the BNM stated that it expects the economy to rebound strongly in Q3, but noted that downside risks to the growth outlook remain. That being said, we still think that the BNM has ammo left as CPI continues to fall and real interest rates remain relatively high.

OPR and CPI inflation

Source | BNM



The COVID-19 pandemic took a sudden turn for the worse in early October and the country still struggles to contain the latest wave of infections despite measures implemented by the government. Even though a full lockdown remains off the table the government has implemented partial regional lockdowns (CMCO) in Sabah and Selangor states, which are likely to dampen consumer confidence in Q4. BNM governor Nor Shamsiah commented on Nov 13 that the CMCO lockdowns will cause a "speed bump" in the pace of the recovery, but will not have the same effect as the harsher nationwide lockdown implemented in March. Economic activity is continuing and not stopping as we saw in March, she stated.

Overall, we think that the odds are high that COVID-19 will remain a serious concern for policymakers until end-2020 and into early 2021. The government has already revealed an expansive Budget 2021 to reduce the economic impact of the pandemic with a budget deficit target of 5.4% of GDP, which removes some of the pressure on BNM to stimulate growth. However, the government decided not to extend the bank loan moratorium for SMEs and households, which means that borrowers will remain strained unless interest rates fall further. Meanwhile, the government remains highly unstable as tensions between the two main coalition partners have only subsided because of the COVID-19 situation.

GDP declined by -2.7% y/y in Q3, but the pace of contraction slowed down sharply from -17.0% y/y in Q2. One factor that continues to suppress growth is the lack of foreign tourists which weighed heavily on growth as accommodation output declined by -53.9% y/y in Q3. Meanwhile, CPI fell at a stable pace by -1.4% y/y in September, whereas core inflation moderated to 1.0% y/y. In addition, the latest PPI figures showed that producer price deflation sharpened to -3.9% y/y in September from -2.8% y/y in August driven by the sharply falling energy prices. Overall, inflation remains low and the BNM certainly has leeway to cut rates.

One reason why the BNM might not want to cut rates additionally is because it doesn't want to burden banks with a falling interest rate margin in light of the unprecedented situation created by the COVID-19 recession. Banks will likely have to deal with a large inflow of NPLs in Q4 after the end of the six-month bank loan moratorium ends. Still, Nor Shamsiah recently expressed confidence that banks will be able to deal with the inflow of NPLs.

MPC meeting calendar

Previous OPR decisions

Monetary Policy Statement (Nov 3)

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Recent developments:

- BNM keeps OPR unchanged at 1.75% at last policy meeting for 2020, Nov 03, 09:59

MEXICO

CB surprises with easing cycle pause, raises uncertainty ahead

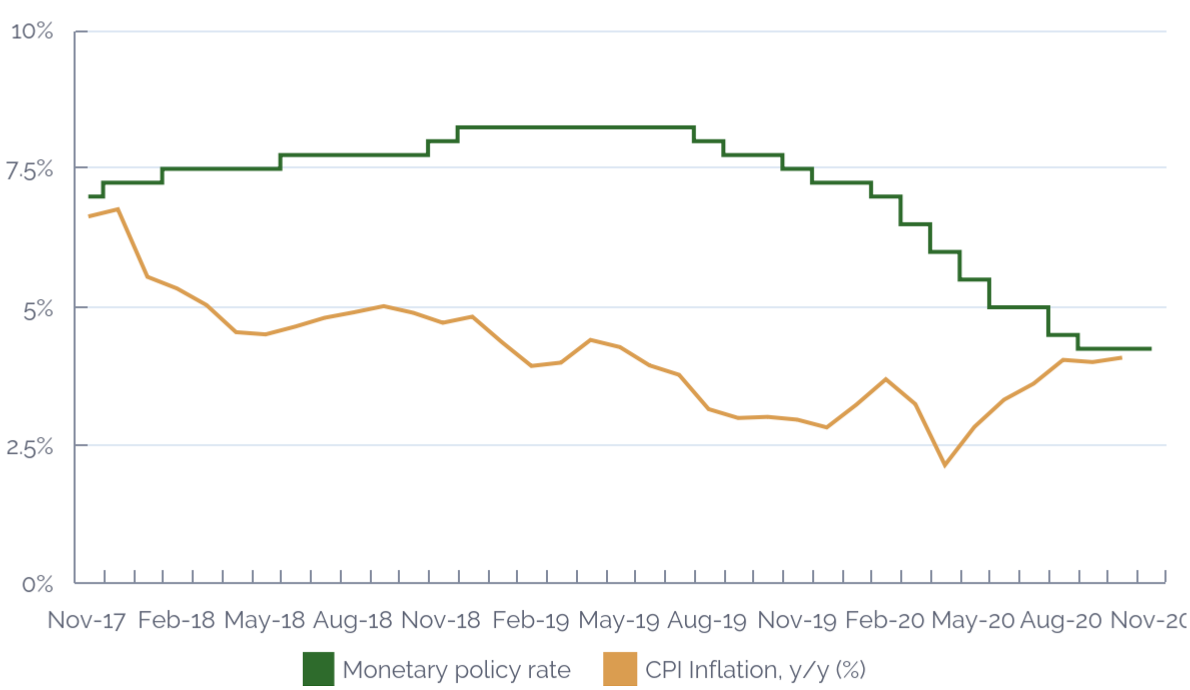
Mexico | Nov 18, 00:47

- **Next MPC meeting: November 12**
- **Current policy rate: 4.25%**
- **CEEMarketWatch forecast: 25bps cut**

The CB surprised on Thursday, pausing its easing cycle. This raises uncertainty ahead, in our view. We continue to expect the CB to resume its easing cycle ahead; however, it's unclear if the next cut will come in December or until early 2021. In this regard, we note the CB said in its communiqué that the current pause will give enough time to assess the convergence of CPI inflation to the CB's 3.00% target, suggesting the pause won't only last 30 days.

Monetary policy and inflation (%)

Source | Banxico



The CB's decision to hold the rate at 4.25% was rather surprising to us because of the currency's recent appreciation. However, it's true CPI inflation has performed disappointingly, suggesting the CB should be cautious. The market consensus is for CPI inflation to close 2020 close to the upper end of the CB's 2.00 to 4.00% tolerance band, and experts anticipate CPI inflation WILL end all 2020, 2021 and 2022 well above the bank's 3.00% target. Moreover, CPI inflation is already above the bank's tolerance band and accelerating, hitting 4.09% in October.

As we anticipated, the bank's decision was divided. However, we were surprised to see only one board member voting for a 25bps cut. We speculate this vote came from deputy-governor Gerardo Esquivel, the more dovish member of the board. Esquivel, and, we believe, Jonathan Heath, both appointed by President Andrés López, said in the previous sitting there is still room for monetary easing. On the contrary, two MPC members said the easing should be paused, with the CB's wiggle room being exhausted. We believe deputy-governors Javier Guzmán and Irene Espinosa, who have made other hawkish comments in the past, hold this position.

The 275bps cut paused last week was fueled by an awful output outlook, in our view, with analysts anticipating a GDP dive of 9.4 in 2020. In this regard, it's relevant to keep in mind the economic rebound since June has been rather solid, particularly behind external demand, with GDP up by 12.0% q/q in Q3, per the stats office's official estimate. However, we warn, there is a risk of disappointing economic results towards the end of the year, as the number of coronavirus cases and deaths is on the uprise since mid-October, perhaps prompting a tighter lockdown moving forward.

Overall, we expect the CB will continue easing its monetary policy in the coming months, adding to the cycle started a year ago. However, there is no clarity about when the next cut will take place. We see a 50% chance of a 25bps cut in the bank's December sitting. If the bank were to hold, our expectation would then be for such 25bps easing to be delayed until Q1.

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Recent developments:

- CB Deputy-governor Guzmán highlight PEMEX among short-term risks, Nov 17, 22:32
- Experts expect a woman to join the CB’s board in early 2021, Nov 17, 21:18
- Banxico head says easing pause depends on inflation and activity, Nov 13, 17:04
- Banxico surprisingly keeps policy rate at 4.25% but in split decision, Nov 12, 22:58
- Experts are divided but anticipate a new 25bps MPR cut on Thursday, Nov 10, 16:00
- Analysts expect 25bps monetary rate cut on Thursday, Nov 06, 02:46

PAKISTAN

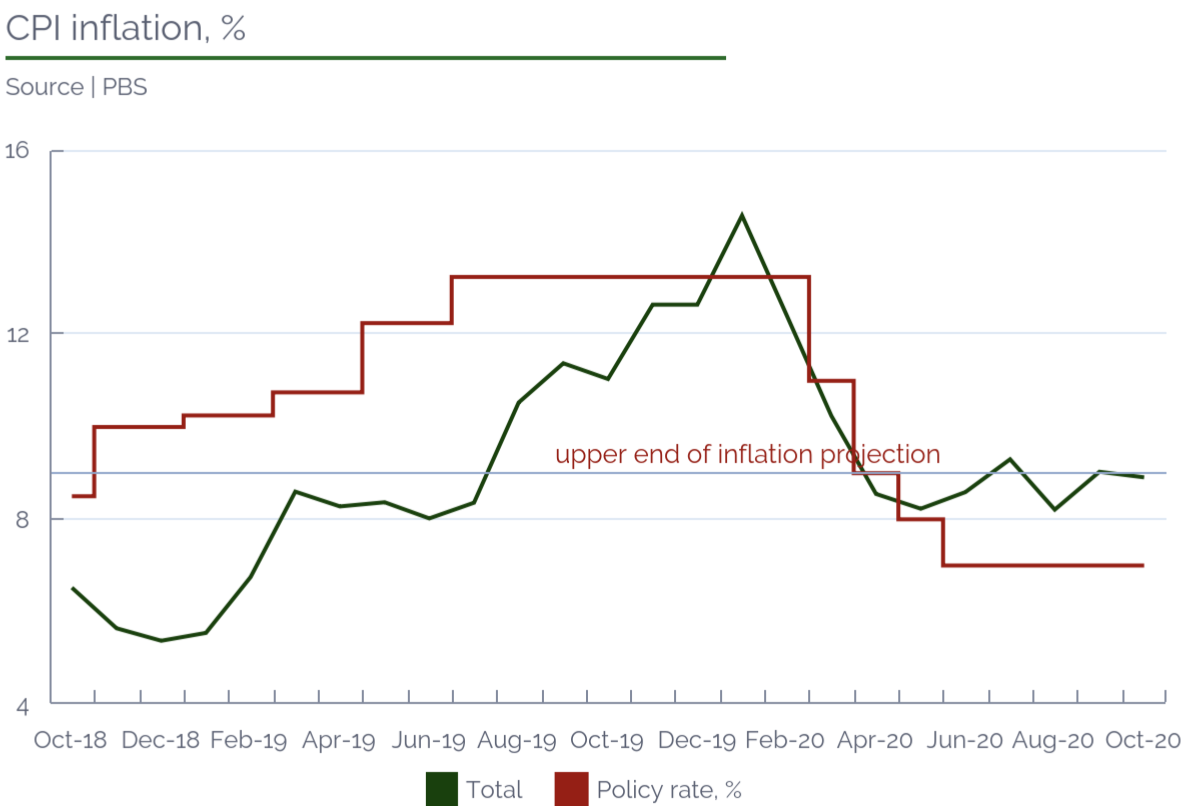
MPC to keep policy rate on hold as elevated inflation persists

Pakistan | Nov 11, 16:49

- **Next policy meeting: To be announced (tentatively, in the second half of November)**
- **Current policy rate: 7.0%**
- **Our forecast: Hold**

Rationale: Elevated inflation and improved growth outlook

We expect the MPC to hold the policy rate at 7.0% in its next meeting as headline inflation remains elevated. In the July-October period of this fiscal year, inflation has averaged 8.9% y/y; thus, staying close to the upper end of the State Bank of Pakistan's average inflation forecast of 7%-9% in FY21. We remind that the rate-setting panel left the policy rate unchanged in September citing uptick in its inflation projection as one of the primary reasons.



With core inflation being largely in control (averaging 5.5% y/y in urban centers during Jul-Oct FY21), high food prices, especially of non-perishable food items like wheat, wheat flour and sugar, continue to be the biggest driver of inflation. However, the government is confident that the prices of wheat and sugar as well as of vegetables will come down in the coming months as imports of these commodities start hitting the local markets. This suggests that elevated inflation in the country is largely transitory in nature, a phenomenon to which the MPC alluded to in its policy statement. Notwithstanding the future trajectory of the headline inflation, we believe that the MPC will maintain status quo on the policy rate in its next meeting.

An uptick in growth is another factor that may prompt the MPC to take a backseat. Growth in certain high-frequency indicators, such as industrial production, federal tax collection, cement sales, vehicle sales and fuel consumption, among others, signals economic rebound during the first four months of FY21. While the IMF expects Pakistan's economy to grow by 1.0% this fiscal year, the central bank has an optimistic view on the economy as it pegs the country's economic growth at more than 2.0% in FY21.

GDP growth forecasts (%, y/y)

	Date revised	FY21
Government	June-20	2.1
IMF	Oct-20	1.0
World Bank	June-20	-0.2

ADB	Sep-20	2.0
Fitch	Aug-20	1.2
S&P	Aug-20	1.3
Moody's	Aug-20	1-2%

Note: FY = Jul - Jun

Source: PBS, IFIs, rating agencies

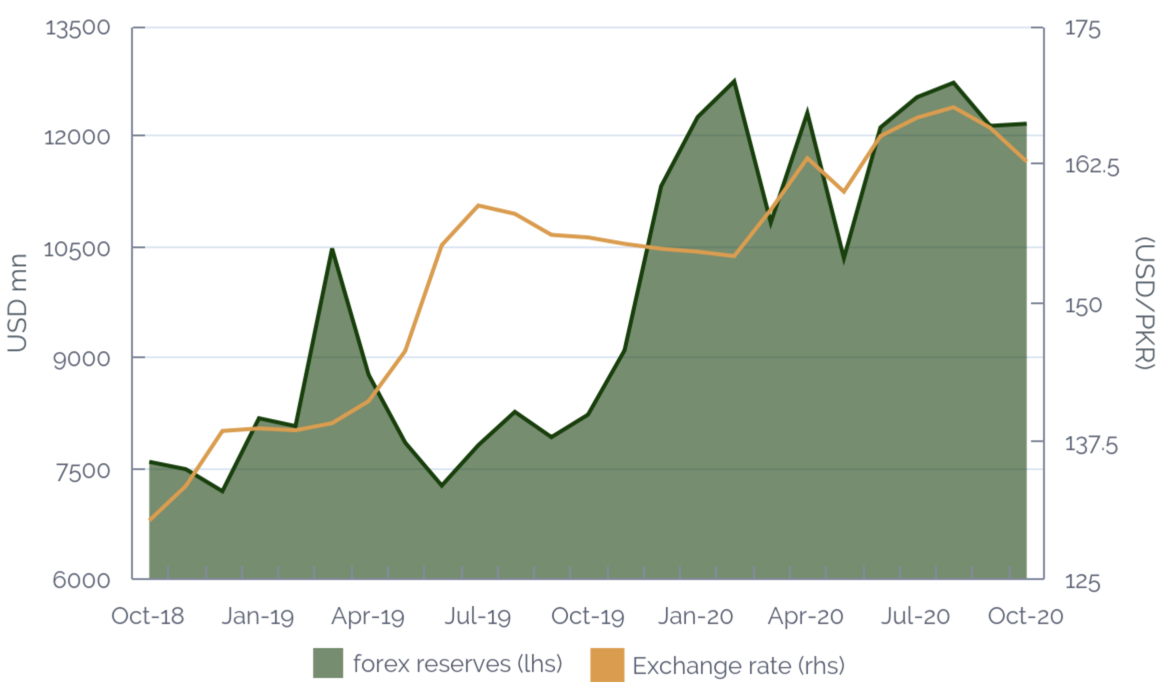
Having said that, reimposition of lockdown to contain the spread of coronavirus may derail the nascent economic rebound. The second wave of COVID-19 has kicked in as the number of infections have risen to the same level as they were in the last week of July. So far, the government has refrained from taking any harsh restrictive measures and PM Imran Khan has categorically ruled out complete lockdown; nevertheless, the possibility of a partial lockdown can not be rejected.

Lastly, Pakistan's external position is relatively stable. Current account balance has been in surplus since July, leading to a sharp improvement in the Pakistani rupee, which has appreciated by 5.8% vis-à-vis USD since August-low. However, the strengthening of the domestic currency is believed to be short-lived as the current account deficit is expected to rise to 2.5% of GDP in FY21 from 1.1% in FY20; thus, putting downward pressure on the PKR.

On the other hand, the central bank's forex reserves are likely to remain stable in the near- to medium-term, considering the government's negotiation with the IMF does not get off the track, which will considerably affect foreign capital inflows. There is, however, slim chances of happening that.

Liquid forex reserves (USD mn) and avg. exchange rate (USD/PKR)

Source | SBP



MPC members

Name	Designation	Appointed on	Term ends on
Reza Baqir	Governor	May 5, 2019	May 4, 2022

Atif R. Bokhari	Board Member		
Azam Faruque	Board Member		
Tariq Hassan	Board Member		
Jameel Ahmad	Deputy Governor, SBP (Banking and FMRM)		
Murtaza Syed	Deputy Governor, SBP		
Inayat Hussain	Executive Director - FS & BSG, SBP		
Naved Hamid	External Member	Jan 24, 2019	Jan 23, 2022
Asad Zaman	External Member	June 3, 2019	June 2, 2022
Hanid Mukhtar	External Member	June 3, 2019	June 2, 2022
Mohammad Mansoor Ali	Corporate Secretary		

Source: SBP

Further Readings

Monetary Policy Statement, Sept 2020

SBP Annual Performance Review 2019-20, Oct 2020

The State of Pakistan's Economy, July 2020

Financial Stability Review, June 2020

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Recent developments:

- MPC to announce policy rate decision on Nov 23, Nov 20, 09:56

PHILIPPINES

BSP likely to hold policy rate at 2.25% on Nov 19

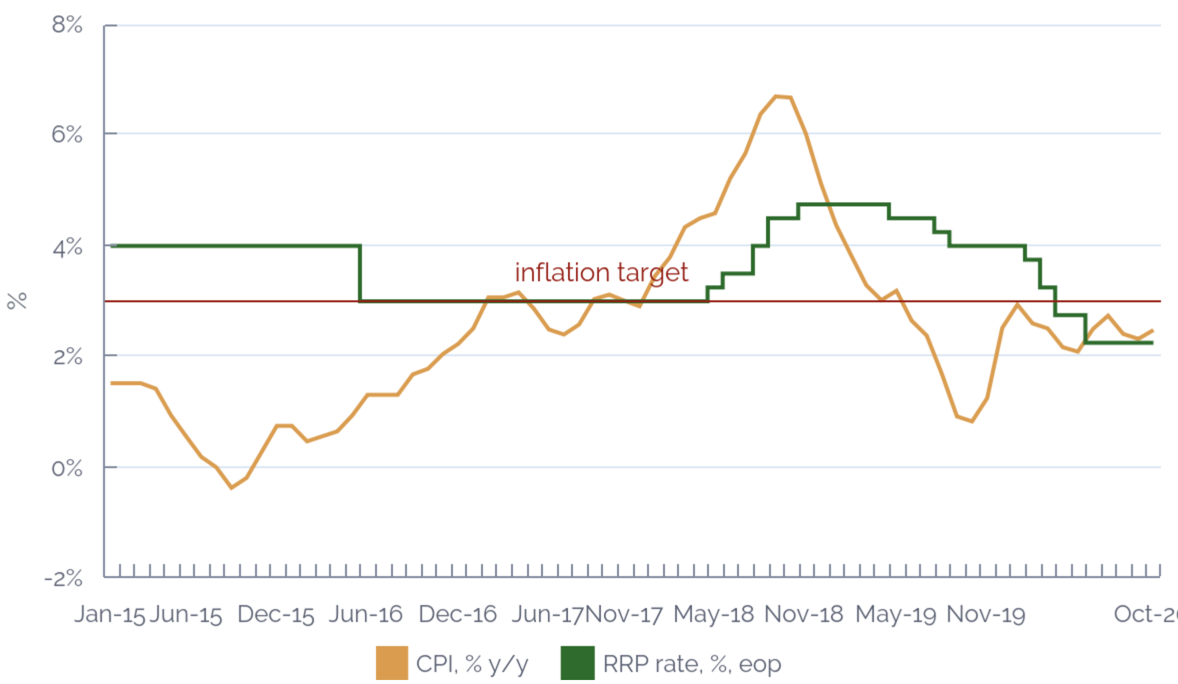
Philippines | Nov 11, 17:07

- **Next monetary policy meeting: Nov 19**
- **Current policy rate: 2.25%**
- **Expected decision: Hold**
- **Rationale: Q3 GDP not disappointing enough to interrupt the pause of monetary easing**

We expect BSP's Monetary Board (MB) to hold the interest rate on the central bank's overnight reverse repurchase (RRP) facility at the all-time low of 2.25% in its meeting on Nov 19. This is going to be a third consecutive hold decision, following the ones made in August and October. We hence expect that the pause of the monetary easing will continue in November. A policy rate cut is the second most likely scenario. Compared to the previous Central Bank Watch, its probability has increased as the third-quarter GDP performance was worse than consensus expectations and lending growth further decelerated.

Inflation vs. main policy rate (%)

Source | PSA, BSP



It should be noted that the BSP has implemented considerable monetary easing recently. Since May 2019, the BSP has reduced the policy rate by 250bps. This figure includes 175bps in cuts so far this year. Earlier this year, the Philippine central bank also reduced the reserve requirement ratio for banks.

The GDP dropped by 11.5% y/y in Q3, after decreasing by revised 16.9% y/y in Q2. The median forecast in a Reuters' poll was for an annual contraction by 9.8% in Q3. The economic recession in the Philippines has hence continued. The seasonally-adjusted data show that GDP rose by 8.0% q/q in Q3, after dropping by 14.9% q/q in Q2. 'The economy is on the mend. The worst is over,' acting economic planning secretary Karl Chua said as quoted by the news agency.

CPI inflation accelerated to 2.5% y/y in October from 2.3% y/y in September. The CPI climbed 2.5% y/y in Jan-Oct. The central bank's target range is 3.0% ± 1pp. The October inflation data remain consistent with the central bank's 'prevailing assessment of benign inflation dynamics over the policy horizon', the BSP commented. The overall balance of risks to future inflation continues to be toward the downside mostly due to the risk of potentially more severe disruptions to domestic and global economic activity resulting from the pandemic.

Outstanding loans of universal and commercial banks, net of reverse repurchase (RRP) placements with the BSP, rose by 2.8% y/y to PHP 9.03tn (USD 186.2bn) at end-September, slowing down from 4.7% y/y growth in August. Loan growth has been decelerating for six consecutive months.

Further reading

Press release after Oct 2020 monetary policy meeting

Schedule of monetary policy meetings

Highlights of MB meetings on monetary policy

Inflation Report

Recent developments:

- BSP's Monetary Board cuts policy rate by 25bps to 2.00%, Nov 19, 13:46
- BSP expected to hold policy rate at 2.25% on Nov 19 – consensus poll, Nov 18, 15:26
- BSP not likely to ease monetary policy further as recovery gains pace -- Diokno, Oct 27, 09:56

POLAND

MPC remains firmly on hold, unlikely to cut or hike for some time

Poland | Nov 18, 16:54

- **Next MPC meeting: Dec 2, 2020**
- **Current policy rate: 0.10%**
- **EmergingMarketWatch forecast: 0.10%**

Rationale: The Monetary Policy Council is likely unanimous right now -- smack, dab in the middle of a Nazare-high second coronavirus wave -- that interest rates do not need to be changed, with the doves not wanting to move toward negative rates and the hawks knowing the situation is too fraught to back hikes. The dovish side is in the ascendancy with at least 6 of 10 members on their side, though only Eryk Lon has lately speculated that negative rates might be needed. This side wants low rates to be able to help borrowers and thus stave off larger financial losses even if banks are hurt by the low rates. This side sees the latest inflation pressure completely receding in 2021 and thus does not see the need to change rates through 2021, at least as of now. The MPC changeover for most members occurs in early 2022, and thus the majority does not expect the MPC to move again in terms of the key rate.

The hawks have been much more worried about inflation and the prospect of inflation heating up due to the recovery of the economy next year, supported by higher regulated prices as well as power prices. Yet, this side has quieted down in terms of hikes of late due to the coronavirus wave. Eugeniusz Gatnar, for instance, was cited saying on Nov 17 that rates should be hiked by 40bps when the coronavirus pandemic is over, with that not likely to be considered until well into 2021.

Overall, the MPC doves and hawks likely all back the current rate, even if some members have misgivings. Assuming the coronavirus pandemic becomes controlled at some point in H1, the recovery will start next year, but might not be sharp. That should allow the majority to keep rates unchanged. The likelihood would then be a sharp economic acceleration sometime in H2 that runs into 2022, which is when hikes would occur. Of course, there are a whole host of unknowns, including what sort of MPC will be put in place. The Law and Justice (PiS)-dominated Sejm will choose its 3 members in February-March 2022, the opposition-dominated Senate will choose 2 of its 3 in January 2022 (the other in November), and the president will choose 2 of his 3 in February 2022 (the other in 2025), meaning 7 of the 10 members will be swapped out by end-Q1 2022. NBP and MPC chair Adam Glapinski's term expires in June 2022, but he probably has a good chance of getting a second one.

MPC breakdown

Pol.

Member	Institution	Date in	Date out	support	Comment
Adam Glapinski	Pres/Sejm	Jun. 21, 2016	Jun. 21, 2022	PiS	Leads dovish majority, unlikely to back hikes for some time
Grazyna Ancyparowicz	Sejm	Feb. 9, 2016	Feb. 9, 2022	PiS	Backs flat rates to 2022
Eryk Lon	Sejm	Feb. 9, 2016	Feb. 9, 2022	PiS	Uber dove, supports hold, says cuts can't be ruled out
Jerzy Zyzynski	Sejm	Mar. 30, 2016	Mar. 30, 2022	PiS	Dove, expects stable rates until 2022
Eugeniusz Gatnar	Senate	Jan. 25, 2016	Jan. 25, 2022	PiS	Hawk, sees hike to 0.50% after COVID ends
Jerzy Kropiwnicki	Senate	Jan. 25, 2016	Jan. 25, 2022	PiS	New hawk, sees possible hikes in mid-2021
Rafal Sura	Senate	Nov. 16, 2016	Nov. 16, 2022	PiS	Dovish, backs hold, sharply opposes hikes
Lukasz Hardt	President	Feb. 20, 2016	Feb. 20, 2022	PiS	Sees cuts as excessive, wants more QE
Kamil Zubelewicz	President	Feb. 20, 2016	Feb. 20, 2022	PiS	Top hawk, says would back hike
Cezary Kochalski	President	Dec. 21, 2019	Dec. 21, 2025	PIS	Says rates now appropriate, dove

Source: NBP

Archived video of all MPC press conferences

MPC's post-sitting statements

Latest council minutes

Latest NBP inflation report (July 2020)

Most recent MPC voting results

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Recent developments:

- MPC's Gatnar says rates should remain stable, hiked after pandemic, Nov 20, 17:10
- MPC's Kropiwnicki sees chance for hike in H2 2021, Nov 19, 17:13
- MPC's Gatnar backs flat rates, sees hikes to 0.50% after pandemic, Nov 17, 17:00
- MPC's Ancyparowicz says further cuts unlikely, pessimistic on economic outlook, Nov 17, 16:46
- MPC's Hardt says NBP has room to step up asset purchases if needed, Nov 16, 16:28
- Gatnar, Hardt, and Lon were all absent from Nov 6 sitting, Nov 12, 14:51
- MPC's Lon says rates should remain on hold till end of term in 2022, Nov 10, 18:53
- MPC backed flat rates in Oct to keep stimulus up, support recovery, Nov 10, 17:34
- New NBP projection confirms upward shift of CPI path, mixed GDP outlook, Nov 10, 17:10
- MPC says 2021 budget realistic, though GDP and CPI inflation subject to risk, Nov 09, 17:48
- MPC holds rates, warns that new restrictions comprise downside risk, Nov 06, 17:45
- MPC holds key rate at 0.10%, as expected, Nov 06, 16:43
- PFR to disburse PLN 10bn for large companies, giving PLN 15bn buffer, Nov 05, 18:22

- MPC's Sura applies for job at Supreme Administrative Court, Nov 05, 14:53
- MPC moves next policy sitting to Nov 6, Nov 03, 14:39
- NBP to hold structural bond purchase auction on Nov 18, Nov 02, 17:00
- MPC's Lon says further rate cuts might ne needed, Oct 27, 17:13
- MPC's Ancyparowicz says more rate cuts would be unhelpful, Oct 26, 18:12
- MPC's Zyzynski backs flat rates, more asset buys if easing needed, Oct 26, 15:18

ROMANIA

NBR probably to hold rates by end-2020, inflation further slows

Romania | Nov 11, 11:25

- **Next MPC meeting: Not scheduled, whenever necessary**
- **Current policy rate: 1.50%**
- **CEEMarketWatch forecast: Cut of minimum reserve requirement on RON liabilities**

Rationale: We believe that the NBR will very probably hold on to the current policy rate level - 1.50% - by the end of this year, even if it remains the highest in the region. Inflation is easing and will most probably remain very close the central bank target (2.5%+/-1pp) by the end of 2020, as demand narrowing and oil prices fall will probably cushion possible inflationary pressure from supply shortage in some sectors. In addition, central banks in the region seem to be more prudent with rate cuts for now and are looking more towards other instruments to continue easing. We note that Romania's CPI inflation moderated further to 2.24% y/y in October from 2.45% y/y in September, for the third consecutive month, down to the lowest level in the past three years. Even though the slowdown could raise concerns over economic recovery and justify another rate cut, it was mostly caused by components outside the NBR's monetary policy influence. At the same time, the adjusted CORE2 inflation, which could be influenced by a rate cut, picked up for the second consecutive month in October.

Monetary policy and inflation, %

Source | NBR

The NBR made an unexpected 25bp cut on Aug 5, leading to a cumulative 100bps in rate cuts implemented this year, since end-March. There are numerous reasons that justified another rate cut in the current context, namely to support economic recovery, ensure market liquidity, give a hand to lending and government borrowing. Some positive effects on the CA account balance cannot be ignored either, even though they also come with substantial pressure on local currency depreciation. Yet, we still think that Romania's policy rate should be higher compared to peers because the economy faces major imbalances that might worsen even more with further rate cuts. Significant sensitivity of population and business environment to exchange rate fluctuations, widening twin deficits and political instability could hastily push away capital flows in case rates become less attractive. In addition, a large part of Romania's external public debt is denominated in euro, which is not good if the RON depreciates.

Other undesirable effects coming from further rate cuts would be to discourage savings, while turning back to a consumption-fuelled economic growth, which proved unhealthy. Certainly, investment must be encouraged and access to financing for companies should be facilitated through lower rates, but that could also keep alive firms with weak capitalisation and poor financials. Those companies have been a major source of concern for the central bank in the past years as they could trigger structural problems in the economy in the long run or in case of other shocks.

Undeniably, the economy needs support for recovering from both fiscal and monetary policies, so we cannot rule out another 25bp rate cut, especially since the NBR seemed rather confident in its ability to preserve a controlled depreciation of the local currency, with minor fluctuations. It will depend though on the epidemic development, specifically if a worsening would affect potential GDP and not only the output gap. Nonetheless, the central bank has other instruments besides the policy rate. It has injected liquidity through repo deals and purchases of government bonds, while reducing financing costs for banks with lower rates at its facilities since mid-March. Also, the minimum reserve requirement on RON-denominated liabilities of local credit institutions is among the highest in the region (8%) and NBR Governor Mugur Isarescu has mentioned it intends to lower it towards 2%. Yet, that instrument has not been touched yet in neither of the crisis-mode board meetings.

Recent developments:

- Central bank preserves room to act, but any move must be wise - NBR's Popa, Nov 20, 15:43
- NBR revises down end-2020 inflation forecast to 2.1%, 2021 projection is kept, Nov 13, 14:14
- NBR revises significantly down its short-term inflation outlook, Nov 13, 08:02
- NBR cuts fx reserve requirements to 5%, keeps policy rate at 1.5%, Nov 12, 13:51

RUSSIA

CBR to keep key interest rate at 4.25% in December

Russia | Nov 11, 17:54

- **Current policy rate: 4.25%**
- **Next monetary policy meeting: Dec 18, 2020**
- **Expected decision: hold**

We continue to expect that the CBR will keep the key interest rate at 4.25% at its Dec 18 monetary policy meeting, despite the retained dovish rhetoric. CPI inflation picked up to 4.0% y/y in October, in line with CBR's forecast of 3.9%-4.2% at end-2020. Meanwhile, the ruble has strengthened somewhat recently, supported by the oil price increase, but remains above the 90 mark against the euro. Joe Biden's win in the US presidential election would mean somewhat harsher Washington rhetoric towards Moscow, but we do not expect any major changes especially in the near-term. The US election outcome and Phizer's Covid vaccine announcement boosted investors' risk appetite, from which Russia benefited too. At the same time, the worst risks of sanctions have not materialized - those in regards to Russia's involvement in the Belarus crisis, possible escalation of tensions with Turkey over the Nagorno-Karabakh conflict, as well as the poisoning of Alexey Navalny. In regard to the latter, it seems that the response of the West will remain confined to blacklisting individuals and entities.

Some indicators have suggested that economic activity has started to deteriorate, although the authorities remain reluctant to implement harsher restrictions similar to the ones in Western Europe. In late October, President Putin ruled out nationwide lockdown. Nevertheless, considering the continuing growth of new Covid infections and some regional restrictions implemented more recently, GDP seems destined to report another tangible drop in Q4. This could force the government to adopt new support measures, despite its commitment to fiscal prudence. Overall, the uncertainty remains high and CBR governor Elvira Nabiullina has already signaled the CBR will not rush to cut the key rate given possible negative consequences, if it is not implemented at the right time. However, the expected easing of CPI inflation in H1 2021 would allow for some rate cuts without pushing real interest rates into negative territory, which the CBR previously said is reluctant to do.

Press release after October 2020 monetary policy meeting (in English)

Medium term forecast (Oct 2020, in English)

Monetary policy report (July 2020, in English)

Monetary policy guidelines for 2021-2023 (draft, in English)

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Recent developments:

- CBR still sees small room for rate cut – CBR department head Tremasov, Nov 19, 13:08
- Consumer prices rise by 0.2% during Nov 10-16, Nov 18, 18:31
- Banking system remains stable, cleanup is nearly complete – Nabiullina, Oct 29, 14:09
- Consumer price growth remains at 0.1% during week of Oct 20-26, Oct 28, 19:19
- Additional forex sales due to Aeroflot, Oct 27, 11:07
- Inflation expectations rise to 9.7% in October, Oct 26, 19:05
- CBR increases daily forex sales by RUB 1.1bn to RUB 4bn, Oct 26, 09:13

SOUTH AFRICA

SARB to remain on hold amid weak inflation, rand recovery

South Africa | Nov 11, 13:38

Next MPC meeting: Nov 19, 2020

Current policy rate: 3.50%

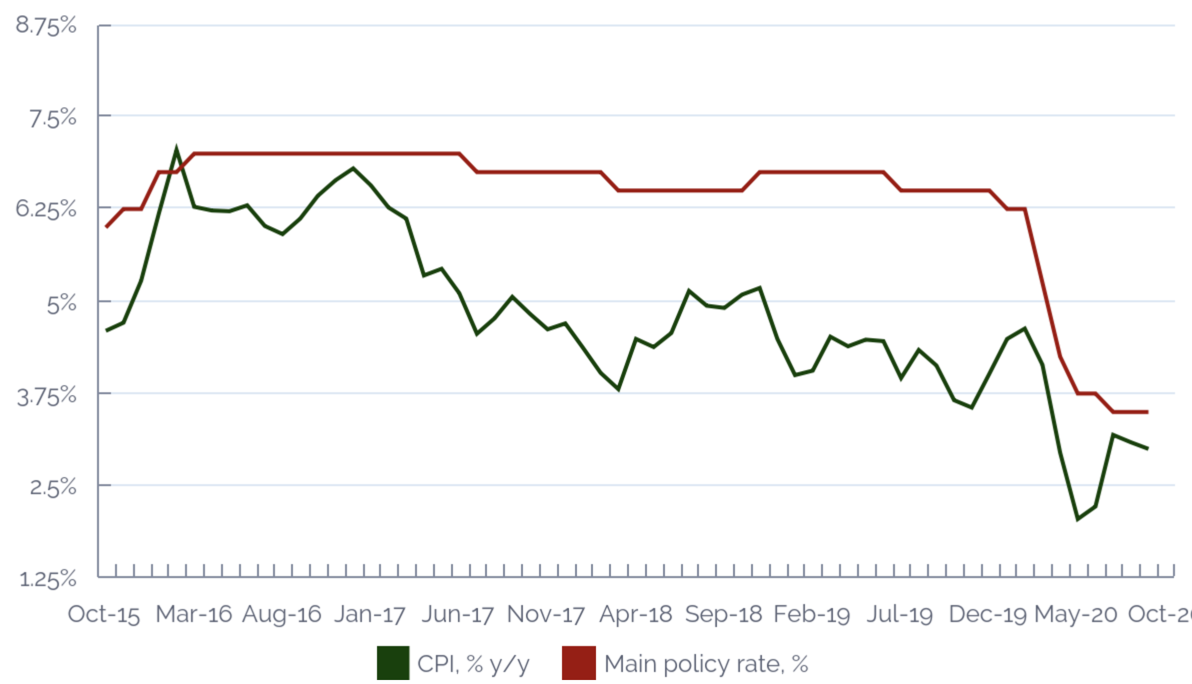
CEEMarketWatch forecast: 3.50%

The SARB said in Monetary Policy Review in early October that the key interest rate at the current low of 3.5% seemed appropriate for the time being unless there are major developments that could change this perception. We think this remains the case and there is little likelihood for a change of the base rate at the last MPC meeting for the year which will be held next week (Nov 17).

Domestic inflation accelerated to 3.1% in Q3 after bottoming out at 2.4% in Q2 but remains low. The central bank targets a band of 3.0-6.0% and the preferred rate is the mid-point of the target range at 4.5%. In the fourth quarter inflation will remain close to the 3.0% lower end of the band as fuel prices which were cut both in October and November will support the downside. The central bank has projected an inflation rate of 3.3% in the fourth quarter and an annual average of 3.3% this year but it looks like the risks to this forecast are on the downside.

Inflation vs main policy rate (%)

Source | Statistics SA, SARB



Over the course of next year, inflation risks seem to edge on the upside if the demand for oil stabilizes as the COVID-19 pandemic subsides. Domestic electricity prices will be a major source of pressure starting in Q2 as power utility Eskom could get an approval for a considerable increase in tariffs resulting from several court judgements in this regard. On the downside is the expected muted economic recovery and the relatively weak domestic demand amid a loose labour market with a record high unemployment rate.

The public finances are very constrained and the government is unable to provide much in the way of consumption stimulus. The flow of investments will also dwindle as a result of COVID-19 drying up liquidity. This means that the risks of reversing the monetary policy easing implemented this year will likely be delayed to a later stage.

In a shorter perspective, the rand appreciated considerably since the slide in April and May. Domestic assets were most recently supported by a more favourable risk sentiment following the US elections last week. The rand appreciated to USD/ZAR 15.63 at the time of writing from USD/ZAR 16.15 at the time of the last MPC meeting on Sep 17. The more favourable market conditions would preclude an interest rate hike for the time being, though a rate cut is likewise unlikely, considering the magnitude of the intervention so far (300bps) and the prospects for economic recovery in the third and final quarter of the year.

Monetary Policy Committee Statement

Monetary Policy Committee Assumptions

Monetary Policy Committee Forecasts

Monetary Policy Review

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Recent developments:

- MPC keeps policy rate at 3.5% but decision is close call, Nov 19, 16:06
- Treasury opposes EFF’s proposal for SARB nationalization, Nov 19, 11:30
- Central bank reduces government bond purchases further in October, Nov 06, 10:44

THAILAND

BOT’s MPC likely to hold policy rate at 0.50% on Dec 23

Thailand | Nov 18, 17:04

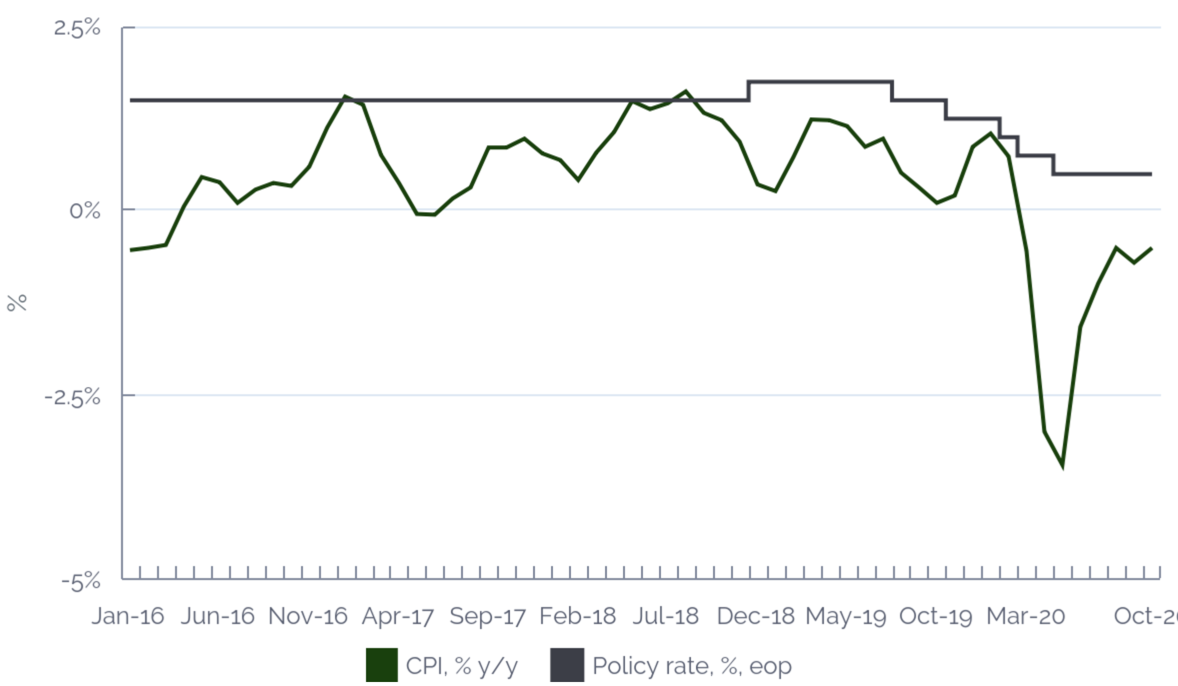
BOT's MPC likely to hold policy rate at 0.50% on Dec 23

- **Next monetary policy meeting: Dec 23**
- **Current policy rate: 0.50%**
- **Expected decision: Hold**
- **Rationale: Limited policy space; emphasis on more targeted measures**

We expect that the BOT's Monetary Policy Committee (MPC) will maintain the policy interest rate at the all-time low of 0.50% in its Dec 23 meeting, the last one for 2020. Thailand's central bank has limited space with regard to the policy rate level. On Nov 18, the MPC voted unanimously to maintain the policy rate at 0.50%. The decision was in line with market expectations. The MPC made it in order to support economic recovery, while emphasizing more targeted measures. There have been three 25bp cuts so far this year. However, the MPC voted unanimously to hold the policy rate at 0.50% in its last four meetings, in June, August, September and November. A policy rate cut is the second most likely scenario for the December meeting, in our view.

Inflation vs. main policy rate (%)

Source | Ministry of Commerce, BOT



The GDP decreased by a real 6.4% y/y in Q3, following a revised 12.1% y/y decline in Q2, the office of the national economic and social development council said on Monday. The latest result is better than consensus expectations of an 8.6% y/y contraction, according to a Reuters poll. In seasonally adjusted terms, GDP rose by 6.5% q/q in Q3, after falling by 9.9% q/q in Q2. The NESDC improved its estimate of economic performance in 2020. The council now expects an economic contraction by 6.0%. In August, the NESDC saw this year's growth in the range from -7.8% to -7.3%. With regard to 2021, the NESDC forecasts economic expansion in the range 3.5-4.5%.

Consumer prices fell by 0.5% y/y in October, decelerating from a 0.7% y/y decline in September, according to data from the ministry of commerce. The October outcome was in line with consensus expectations. Consumer prices fell for the eighth month in a row, though the contraction remains relatively muted compared to Q2. Core inflation eased to 0.19% y/y from 0.25% y/y in September. On Nov 18, the MPC said, 'Meanwhile, headline inflation would be less negative in line with increasing energy prices and would stay close to the lower bound of the target range [1.0-3.0%] in 2021. Medium-term inflation expectations remained anchored within the target.'

The MPC also expressed concerns over the fast appreciation of the baht against the US dollar, because it affected the fragile economic recovery. The Thai central bank will hold a briefing on the baht situation and measures on Friday, assistant governor Titanun Mallikamas said as quoted by Reuters.

Further reading

MPC decision of Nov 18

Schedule of MPC meetings

Edited minutes of MPC meetings

Monetary policy report

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Recent developments:

- BOT's MPC holds policy rate at 0.50%, in line with expectations, Nov 18, 14:13
- BOT to keep key rate flat at 0.50% -- consensus poll, Nov 17, 09:11

TURKEY

MPC likely to meet market expectations for strong policy rate hike

Turkey | Nov 18, 17:28

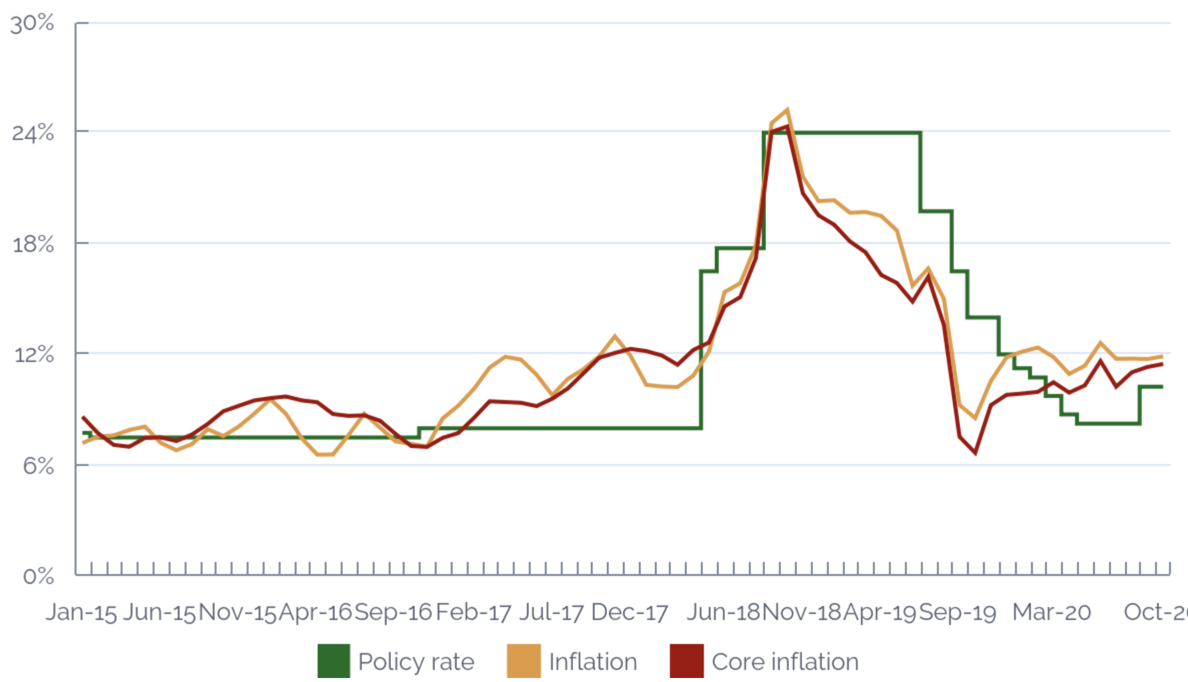
- **Next MPC meeting: Nov 19, 2020**
- **Current policy rate: 10.25%**
- **EmergingMarketWatch forecast: Hike by 450-500bps**
- **Rationale: MPC will likely meet market expectations for simplifying rate policy and raising policy rate to levels close to its average funding rate in order to pass first market test under term of new governor or otherwise risk renewed round of lira slide and further deterioration in inflation outlook**

The MPC will probably meet market expectations for return to orthodox monetary policy by simplifying the rate policy and raising the policy one-week repo rate to levels close to its average funding rate in its critical meeting on

Nov 19, in our view. Markets on average projected a 475bps hike in the policy rate to 15.0%, according to polls by the AA Agency, Bloomberg HT and Reuters. This compares to the weighted average cost of the CBT funding of 14.72%. A policy rate hike would automatically result in increases in the CBT's marginal funding rates of the overnight (ON) and late liquidity window (LLW) lending rates by the same size. Yet, it is also seen possible that the MPC will reverse its October decision and reduce the spread between the LLW lending rate and the policy rate back to 300bps as part of policy simplification, based on local media interviews with bank economists. The ON lending rate currently stands at 11.75% or 150bps above the policy rate, and the LLW lending rate - 14.75% or 450bps above the policy rate.

Inflation versus rates (%, y/y)

Source | Turkstat, CBT



The upcoming MPC meeting is critical as it acts as the first market test the economic authorities face after major replacements, namely changes in the posts of CBT governor and finance minister, and following messages by the government and new CBT governor Naci Agbal that signalled some return to orthodox policy. We recall that President Recep Tayyip Erdogan said last week that the economic policy team will not hesitate to employ a bitter recipe of policies if seen necessary to overcome current economic problems. We read Erdogan's remark as greenlighting rate hikes by the MPC, also judging by his recently tighter tone about reducing inflation. Inflation inched up to 11.9% y/y in October, Turkstat reported earlier. The CBT's November survey of expectations showed an average market forecast for inflation to rise to 12.5% at year-end, compared to the CBT's own projection of 12.1%. The same survey also implied that the market anticipated inflation to remain on double-digit rates throughout 2021.

We see it unlikely that the MPC will disappoint the market with a rate hike that is notably lower than expected as such a scenario could trigger a renewed round of lira slide, which would create additional risks to the inflation outlook. We think the MPC, and new CBT governor Agbal in particular, should be aware of the negative risks from failing to pass the market test. The MPC's forward guidance after the meeting will also be critical for the short-term outlook on the lira and other Turkish financial assets. We think a sustained recovery in the CBT's weak credibility of inflation management and downward adjustment in inflation expectations require a mid-term commitment to keep real interest rates at sufficiently positive levels.

MPC rate decision, Oct 2020

Minutes from MPC rate decision, Oct 2020

Latest Inflation Report, Q4/2020 (Overview)

CBT monetary policy strategy for 2020

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Recent developments:

- BDDK reportedly to revise asset ratio to help banks hike lira deposit rates, Nov 20, 16:32
- Rate hike was necessary bitter pill for economy – President Erdogan, Nov 20, 12:35
- CBT hikes lira swap rate to 15.0% on par with policy rate, Nov 20, 11:19
- CBT envisages one-week transition to single channel of funding, Nov 19, 16:38
- MPC hikes policy rate by 475bps to 15.0%, returns to orthodox policy, Nov 19, 13:45
- Turkey should not let investments get hit by high interest rates – Erdogan, Nov 18, 16:44
- Erdogan's sentiment on interest rates and CBT policy, Nov 13, 12:34
- BDDK further eases limits on banks’ lira sell-side overseas swaps, Nov 11, 11:24
- Monetary outlook after change of CBT governor, Nov 11, 10:23
- MPC meeting due Nov 19 key to assessing CBT governor change – Fitch, Nov 11, 08:42
- Turkey sticks to free-market rules, battles trap of high rates – Erdogan, Nov 10, 12:42
- New CBT governor Agbal reportedly works on replacing some deputy governors, Nov 09, 17:12
- New CBT governor Agbal implicitly rules out interim MPC meeting, Nov 09, 08:37
- President Erdogan replaces CBT governor Uysal with former FinMin Agbal, Nov 09, 08:16
- FinMin Albayrak reportedly expresses opposition to rate hikes, Nov 04, 08:26
- CBT raises one-week lira swap rate by 150bps to 13.25%, Nov 03, 11:01
- CBT reduces banks’ borrowing limits at CBT interbank market to zero, Nov 02, 08:58
- Q&A session on Inflation Report presentation, Oct 30, 10:53
- CBT cancels ON lending, prompts banks to use more expensive LLW facility, Oct 30, 08:50
- CBT to sustain uptrend in average funding cost – MPC, Oct 28, 14:02
- CBT hikes inflation forecasts to 12.1% for end-2020, to 9.4% for end-2021, Oct 28, 11:49
- Banking watchdog BDDK fine-tunes asset ratio calculation, Oct 27, 08:37

UKRAINE

NBU likely to cut key rate in December, ahead of hike expected in 2021

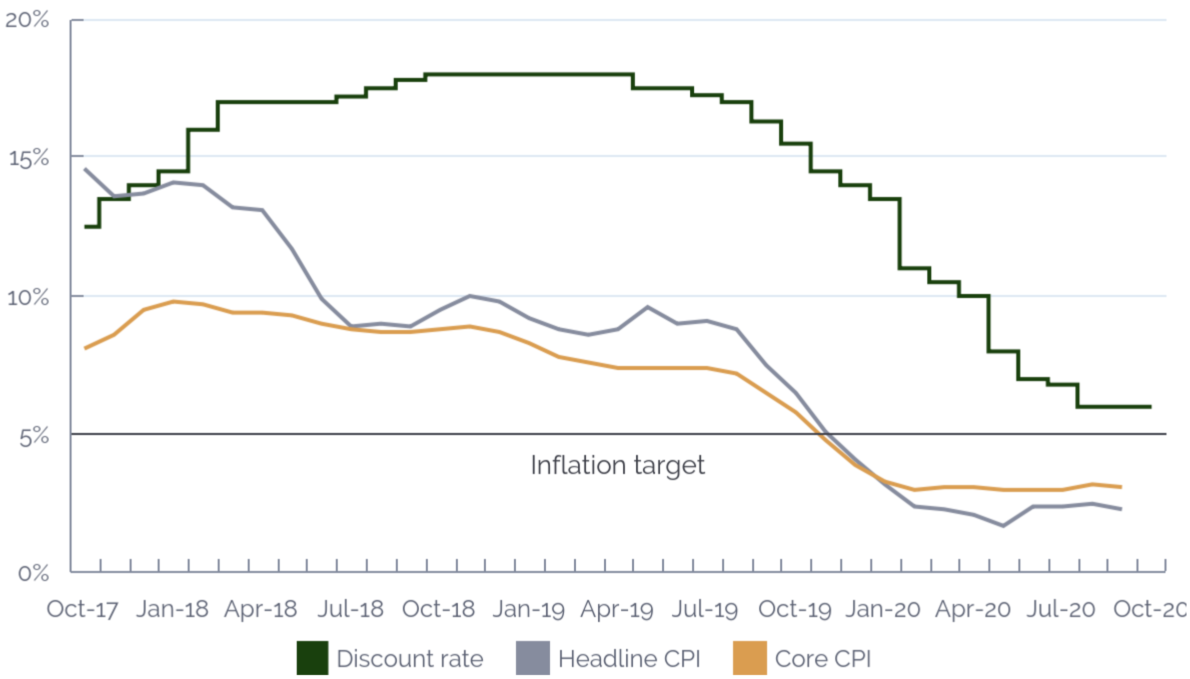
Ukraine | Nov 04, 15:51

- **Current rate: 6%, lowest ever**
- **Next monetary policy meeting: Dec 10**
- **Expected decision: A cut by 25bps**

The NBU on Oct 22, as expected, announced that its benchmark discount rate would stay record low at 6.0%. The on-hold decision was the third in a row. Nine out of 10 MPC members spoke in favour of the on-hold decision at the MPC meeting on Oct 21, the NBU said in a summary of the MPC discussion, published on Nov 2. Only one MPC member suggested cutting the rate by 0.25bps to 5.75%.

Discount rate and inflation (%)

Source | NBU, Statistics Committee



The NBU said that most MPC members agreed that the continuing coronavirus spread triggering stricter measures and lockdowns across Europe would probably prompt a rate cut at the next rate-setting meeting, which is scheduled for Dec 10. At the same time, taking into account inflation risks down the road, the NBU expects CPI inflation to accelerate to 4.1% y/y in December and exceed the target of 4%-6% next year, so MPC members agreed that discount rate would most probably be increased for a short period in 2021. They also agreed that NBU monetary policy would depend first of all on coronavirus developments, as well as on cooperation with IFIs and the budget policy.

President Volodymyr Zelensky admitted recently that IFIs, the IMF in particular, were unlikely to issue more loans to Ukraine this year, following the recent ruling of the Constitutional Court on e-declarations, which paralysed the functioning of Ukraine's anti-corruption bodies. Thus there is a risk that capital outflow from Ukraine will accelerate in the remaining two months of 2020, which may be an argument for the NBU to leave discount rate on hold again on Dec 10. But we expect that coronavirus-induced downturn will be a stronger factor, likely to prompt the NBU to cut the rate in December, probably by no more than 25bps, in order to send a positive signal to the economy amid general uncertainty.

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