

New Europe Economics & Strategy

Focus Notes: Poland

Recent unfortunate plane crash not expected to cause major instability in Poland

Polish President, Lech Kaczynski, was killed in Smolensk, Russia last Saturday, in a plane crash. Other top Polish officials also lost their lives in the same accident, including the President of the National Bank of Poland (NBP), Stawomir Skrzypek, the Deputy Foreign Minister, Andrzej Kremer and a number of high-ranking members of the PiS, the main opposition party headed by Lech Kaczynski's twin brother. Understandably, this tragic event has created uncertainty with respect to Poland's political situation and the future course of monetary policy. However, our assessment is that any domestic instability created by the unfortunate incidence will be rather short-lived. More precisely:

- ❖ The speaker of the lower house of the parliament, Bronislaw Komorowski, took over all presidential duties as Poland's constitution dictates. According to the Polish constitution, the president is an elected post and, therefore, no line of succession exists. Komorowski must announce new elections within 14 days, which will subsequently need to take place within 60 days. Hence, domestic **presidential elections are expected to be held by June 20th, 2010**. Komorowski is the presidential candidate of the ruling Civic Platform party. Therefore, he would have been the main opponent of late Kaczynski in the regular presidential elections, which were previously scheduled for October 2010. Lech Kaczynski was trailing far behind his opponent in the polls, but the recent tragedy may increase public sympathy for his party, PiS. Nevertheless, this will also depend on who will be appointed as PiS candidate in the upcoming presidential elections
- ❖ Deceased central banker Stawomir Skrzypek had been appointed President of the National Bank of Poland (NBP) in January 2007 by Lech Kaczynski and was seen among the dovish members of the Monetary Policy Council (MPC). His responsibilities will now be taken over by his First Deputy, Piotr Wiesiolek who was also appointed by Lech Kaczynski, in March 2008. Under Polish law, the new NBP governor has to be appointed by the President within three months. The acting President, Komorowski, has two

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options: Either to designate the new central bank head himself or leave the decision to the next elected President. The latter option seems less likely as the new President will not be sworn in before late June, which would be very close to the deadline of three months for appointing the new NBP governor. Komorowski has already announced that the central bank head will be chosen quickly.

From a market perspective, the designation of the National Bank's President is a vital issue. However, Skrzypek's passing is unlikely to affect monetary policy, at least in the short term, as inflation is falling and the strengthening of the zloty is already exerting a tightening effect. As a result **even if the new the new NBP President proves more hawkish than his predecessor, the MPC is unlikely to hike interest rates before year-end (the benchmark rate currently stands at 3.50%)**. Moreover, Skrzypek is thought to have been the driving force behind last Friday's direct intervention in the FX market to halt a further significant appreciation of the zloty (the EUR/PLN hit 16-month lows near 3.82 on April 7). Yet this move was politically uncontroversial and totally backed by the government. Therefore, we do not expect any major changes in future NBP policy deliberations. The EUR/PLN stood at around 3.87 at the time of writing, compared to levels around 3.86 in late trade on Monday. We believe that the significant weakening of the local currency over the last two sessions was mainly a result of Friday's FX intervention rather than a consequence of the Saturday's plane crash. We see volatility in the zloty's exchange rates persisting in the short-term, but we do not expect the currency to weaken in any meaningful way.

All in all, the market implications after this tragic event are limited. Polish markets were relatively muted on Monday, showing resilience in the first trading session since the plane crash. Taking into account that the accident will not change the balance of forces in the parliament, local bond yield dynamics will continue, in our assessment, to be determined by domestic macro developments with the size and reduction of the fiscal deficit being the key factors. **We believe that the unfortunate incident will not threaten political and financial stability in Poland in any fundamental way.**

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