

Poland: MPC holds rates flat; dissenting views on inflation

The Monetary Policy Council (MPC) press conference showed dissenting views on inflation, but a low propensity to alter the dovish policy stance. Here are our key takeaways from the event



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MPC clash on inflation

There were dissenting views on inflation in the MPC. National Bank of Poland (NBP) Governor Glapiński stated that the fiscal impulse should have a limited effect on prices. He added cost inflation (caused by higher energy prices associated with climate policy) is also not an argument to change policy. Glapiński also presented quite a grim view of the global economy as an important factor in limiting inflation risk in Poland.

According to hawk K.Zubelewicz the impact of the fiscal impulse on CPI will be stronger, even 1 percentage point (ppt). We are unsure what Zubelewicz meant, as it doesn't align with the estimates of CPI he presented (2.5% year on year within a year). In our view, the fiscal impulse should add just 0.1-0.2ppt to the headline.

Zubelewicz also warned against a plausible strong growth of administered prices (even by 6.5%

YoY), driven by electrical energy increases (5% YoY). He also revealed that dynamics of services prices are projected at 3% YoY in 2020, which in his opinion is alarming. But even with these seemingly hawkish views on CPI, his conclusion was dovish, and he said there is no need to tighten.

Low risk to stable rates policy

On the interest rate, both Glapiński and Zubelewicz confirmed the fiscal impulse is unlikely to alter the MPC stance. Zubelewicz highlighted that monetary transmission of a hike would be too late to stop an inflation increase, and may actually hamper the economy when the fiscal impulse would exhaust.

In our view, the more hawkish stance is definitely supported by two other members (E.Gatnar and Ł.Hardt) and possibly by two pivotal members (J.Osiatyński and G.Ancyparowicz). So overall 4 MPC members have tightening among policy options, and not the 5 we thought before.

NBP Governor Glapiński confirmed there is no need to alter policy instruments in the next two years and likely through the term (end of 2022).

Strong activity, despite European slowdown

Governor A.Glapiński highlighted the 2019 GDP dynamics should be stronger than the March NBP projections (4.5% YoY vs 4.0% YoY in the March NBP projection). This is above market consensus and our forecast (4%). However, during the Q&A session, he presented a rather pessimistic view on global GDP and a longer outlook for Polish growth.

We see a low risk that NBP forward guidance may change. Even if a rate hike would be supported by 4-5 members, there is no majority as the governor has two votes. The dovish members are unlikely to alter their opinion. Secondly, weaker economic activity (especially abroad) should also trim the propensity to hike amongst pivotal members.

In our opinion rates should remain flat till the end of 2020. Afterwards, policy easing is a more likely option.

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