

Poland: MPC leaves rates flat, maintains very dovish tone

Governor Adam Glapinski seems to extend his forward guidance on flat rates past the end of 2018



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Dovish tone

The Monetary Policy Council's statement was little changed from the Dec-17 meeting. It pointed out that the economy is expanding quickly, with growth likely to stabilise in the current quarter at a slightly lower level while investments are in the early stage of a recovery. The most important part of the statement was the passage referring to the labour market. The Council said that while wages have accelerated, core CPI has remained low.

During the press conference, the MPC provided more forward-looking remarks, all very dovish in tone. In our view, the most important reason for this was the rise in productivity, which has caught up with non-linear wage growth.

Governor Glapinski extended his forward guidance on flat rates past the end of 2018 and said rates may remain unchanged into 2019.

The hawk Eugeniusz Gatnar, who previously called for a hike in 1H18, also backtracked and said

that the new CPI projection may be revised down. We see average CPI in 2018 slightly below the NBP's projection of 2.3% year-on-year and we still have core inflation close to the NBP's projections in November despite higher wages forecast for this year.

The risk that the Council may be surprised with a higher core CPI in 2018 is now limited.

Limited hikes of regulated prices at the beginning of 2018 and the normalisation of food prices should hold the average CPI this year below the NBP's target. So we think the MPC will stay on the safe side.

The NBP governor also noted that the Polish zloty has strengthened, which equates to a tightening of monetary policy. His comment indirectly suggests that more PLN appreciation may be on the way (in our view mainly vs US\$) which would offset a new higher trajectory of oil prices.

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