Poland: MPC should signal that fiscal stimulus excludes monetary easing

The MPC left rates flat, in line with consensus. The highlights of the post-meeting conference (at 4pm CET) will be MPC comments regarding fiscal stimulus details and new projections. We expect the MPC chairman to reiterate his mantra of flat rates within the next 2 years.

Source: Shutterstock

The MPC left rates unchanged, in line with forward guidance provided by NBP Governor A.Glapinski. In our opinion the key take-away form this meeting's press conference (at 4pm CET) should be MPC comments on the details of the fiscal stimulus (totalling nearly 2% of GDP in the next 2 years), and any new projections. New NBP forecasts are unlikely to encompass the fiscal easing – the ruling PiS announced new programmes after the NBP projection cut-off date - but the MPC should refer to this anyway.

In recent months the Council has started a discussion about possible easing (via conventional or possibly even unconventional instruments) should the global slowdown spill over into the Polish economy. The fiscal expansion means that over the next two years monetary easing no longer seems required, something which should be reflected in the MPC bias (less dovish, more neutral).

CPI projection lower on energy prices

The March NBP projection should include a lower average CPI forecast for 2019. We expect levels close to 2% YoY, compared to 3.2% in the November report. The previous report assumed an unrealistically high increase in electricity prices which, according to NBP staff comments, increased CPI by c.0.5ppt. Secondly core inflation in 4Q18 surprised on the downside, calling for a lower path in 2019.

For 2020 we think the fiscal impulse could add 0.2ppt to average core inflation, something that will not be included in the projection. We the think new projection could show CPI breaking the NBP inflation target at 2.5% YoY, but staying safely below the upper bound at 3.5%. Given a lingering global slowdown and major downside CPI surprises in the past the MPC should hold its neutral bias and prefer a backward looking approach, while governor Glapinski repeats his mantra on flat rates.

Small revisions in GDP projection, the fiscal impulse not yet included

Finally, the GDP growth profile should be upgraded as well. We expect a 2019 forecast revision from 3.6% YoY to approximately 4% YoY. The forecast for 2020 should remain unchanged (at 3.3% YoY). With the fiscal impulse only detailed after the projection cut-off date, the NBP take on those programmes will be included in the July projection.

Given the moderation in GDP growth and constrained CPI ahead we stick to our longstanding view assuming flat rates in 2019-20.

Author

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl