

## 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 from 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 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](mailto:rafal.benecki@ing.pl)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom

this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.