

## Poland: Five takeaways from NBP meeting

The Monetary Policy Council (MPC) left rates unchanged. We expect stable rates in 2018 and 2019. The MPC is likely to extend guidance into 2020 in 2H18



The MPC left interest rates unchanged, in line with wide expectations. NBP Governor Adam Glapiński reiterated there is no need to increase rates both in 2018 and 2019 and refrained from comments regarding 2020 prospects. Here are our five major takeaways from the meeting:

### 1 July projection should present a slightly lower CPI trajectory

National Bank of Poland (NBP) Governor Glapiński confirmed that the CPI trajectory in July projection should be (in his opinion) slightly lower compared with the March round. The downward revision was explained by low inflationary pressures in the external environment. We forecast average CPI at 1.6% YoY in 2018, well below the March projection (2.1% YoY). Major revisions should come from core inflation - the March projection assumed 1.5% YoY dynamics at the end of 2Q18. The May release of CPI data suggests instead that core inflation is nearly 1ppt lower.

## NBP response to ECB tightening should be flexible

Recent comments regarding the June ECB decision were discussed in the Q&A session. NBP Governor Glapiński stated that there is no need to increase rates in response to the tapering of QE. The governor acknowledged its effects may be negative for Polish assets. Glapiński also highlighted that potential future rate hikes from the ECB should trigger a NBP response, yet the strong disparity between rates in the Eurozone and Poland should grant some flexibility.

### 3 MPC hawks are less worried about labour market conditions

According to MPC member comments labour market conditions are less tight compared with 1Q18. Hawk E.Gatnar quoted results of an internal NBP survey, which lead to the conclusion that pressure on enterprises to increase wages has diminished. The positive surprise came from the increase of the activity rate amongst older workers (50+).

### 4 Higher oil prices and PLN depreciation are not a concern for inflation

NBP Governor Glapiński highlighted that the impact of higher oil prices should be short-lived and CPI is unlikely to increase much further in the coming months. We expect CPI to peak in June or July and return close to the lower boundary of the NBP's target in 4Q18. E.Gatnar discussed the possibility of second-round effects, yet stated that NBP research sees limited response from higher transportation costs. ING estimates each increase of Brent prices (PLN denominated) by 10% results in core inflation pick-up by 0.15ppt. Both Governor Glapiński and MPC members indicated the PLN level is not a concern.

### 5 Strong contribution of inventories in 1Q18 GDP was a one-off phenomenon

There is a wide consensus in the MPC that the 1.8ppt contribution of inventories was a one-off phenomenon. MPC's hawk E.Gatnar highlighted that this category will translate itself into higher exports or investments in the second quarter.

## The bottom line

We expect the MPC to maintain stable rates both in 2018 and 2019. Given supportive economic conditions and the still distant prospect of ECB interest rate hike, Committee Members are likely to extend the guidance into 2020 as well in 2H18 (likely in July or November with the release of new economic projections).

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