

Poland keeps rates unchanged and maintains neutral bias

The central bank has decided to keep rates flat and maintained its neutral bias while downplaying the inflationary risk from the minimum wage hike



Source: Shutterstock

The central bank has decided to keep rates flat pointing out that external growth has slowed which raises some downside risk for the Polish economy.

Governor Glapinski said GDP growth is still solid but slowing, but Poland is still an outperformer in the region. Regarding inflation, the monetary policy committee acknowledged that CPI will probably increase to 1Q20 to 3.5%, but should return to the MPC target in the following quarters i.e. 2.3% in 4Q20, despite the hike in minimum wages in the years ahead.

However, we're less optimistic and forecast CPI at 4%YoY in 1Q20 and close to 3% in the second half of 2020.

Wage hike impact on inflation and the economy

The Governor said doubling minimum wages should cause minimal inflationary effect i.e. 0.1

percentage points next year and 0.1 in 2021, however, we don't agree.

According to our estimates, these strong minimum wage rises, 15% in 2020-21 and 10% in the following three years will probably add 1.2-2.2ppt to average salaries in 2020 and maintain the elevated growth in the following years. Each 1ppt of overall wage growth adds 0.15-0.3ppt to CPI. We see some upside risk to our above-consensus forecast for average CPI for 2020 at 3.2% YoY (now we see 3.2-3.5% YoY). Also, we no longer expect CPI slowdown in 2021, when the economy is likely to slow down. In 2021 we see average CPI to be close to 3-3.2% YoY.

We agree with the central bank that the impact on GDP should be marginal, i.e. 0.1pp in 2020, due to positive contribution of consumption and the negative impact of investments.

Glapiński claims MPC hawks have not changed their view on CPI despite doubling minimum wages. One of the doves present at the press conference (Rafał Sura) said recent CPI rise is temporarily caused by drought and swine flu affecting food. In 1Q20, CPI should test upper bound, but then stabilise close to 2.5% i.e. NBP inflation target.

ECJ ruling on FX-mortgages

Governor Glapiński refused to answer the question about ECJ ruling on FX-mortgages and said he doesn't recognise the risk, which should be addressed by the central bank or Financial Stability Committee. He claims that Polish court has the final say in each client case, so presumably, he assumes that potentially loses should bear Polish banks with a long lag and that should water down potential stress for their profits, capital position and need of FX hedging.

Despite the higher inflation trajectory, mainly in 2021, we stick to our view assuming flat rates until the end of 2020. The central bank's ambivalent view on ECJ ruling on CHF mortgages means that in hot election period NBP should rather stay on the site or it expects that consequences for local banks should be watered down by local Courts verdicts, which should last long.

Author

Rafał Benecki

Chief Economist, Poland

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>.