# 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

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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.

Glapinski claims MPC hawks have not changed their view on CPI despite doubling minimum wages. One of the doves present at the press conference (Rafal 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 Glapinski 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.

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