

## Poland leaves rates flat

The MPC left rates unchanged. During the press conference, NBP governor is likely to repeat his mantra of flat rates until the end of the year, as we still see benign headline inflation in 2018



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Despite the strong local macro data and GDP dynamics breaking the 5% handle in 4Q17, we expect the Council to hold the tightening-averse bias during the press conference.

Our scenario of non-linear acceleration of wages materialised in 4Q17 but, more importantly, productivity caught up with wages. As a result, the risk to core inflation coming from wages is still under control.

Actually, with higher than NBP wages forecast for 2018, we still have core inflation close to NBP projections, so MPC stays on the safe side. The risk that Council may be surprised with a higher core in 2018 is limited now. Additionally, limited hikes of regulated prices at the beginning of 2018 and food prices normalisation should hold the average CPI in 2018 below the NBP target. That should be the main MPC arguments supporting the dovish comments during the press conference.

We also see headline CPI to subside at the turn of the year. Hence the backwards-looking Council should find an additional argument against changing its bias.

The recent MPC comments suggest a high tolerance to above-target CPI (3.5% YoY being a possible trigger according to Zubelewicz).

Therefore we expect the first hike no sooner than 4Q18 (25bp) and an additional 50bp in 2019 as we rather expect headline CPI to be a threat to the NBP target in 2019 than in 2018. The risk is skewed to the downside (lower interest rates hikes, instead of some tightening via macroprudential measures).

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