

## Poland: MPC decision a non-event, but press conference at 4PM CET is key

We are interested to hear what the MPC approach in coming quarters might be, given that GDP may surprise on the downside and CPI on the upside. Also, the series of minimum wage hikes increases the risk of CPI staying above target also in 2021. We think that the MPC can accept elevated CPI for an extended period.



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Despite the significant upside surprise with the December CPI yesterday, we do not expect any major reaction from the MPC today. The tone of the press conference may change and the governor should be less forward looking (in December he expressed his expectations of rates unchanged until 2022). But still, the NBP should hold its dovish/neutral approach. Council members should most likely continue to argue that the CPI increase is to a large extent caused by regulated prices and supply factors and inflation should return to the range around the NBP target in coming months.

We keep our view that interest rates should stay flat in coming quarters. With Professor Osiatynski's term having ended, we see only three voters (Zubelewicz, Hardt, Gatnar) considering a rate raise. Given that the NBP governor is in favour of stable rates, the chances of monetary policy

tightening are low - the hawks need 6 votes to defeat the double vote of the governor.

The key question that the MPC should answer today is what is the risk that CPI stays above the target for long. We forecast CPI to peak in 1Q 2020 at 4.5% YoY and see average inflation this year at 3.6%, implying that CPI should flirt with the upper ceiling of the NBP target (2.5%+/-1%) for the rest of 2020. In 2021, the second of a series of three 15% minimum wage hikes will occur. In our view, the inflationary impact of these hikes may be greater than expected. The rapid minimum wage adjustment is starting at a time when the economy is experiencing its longest consumption boom for many years and with unemployment at record lows.

We are interested to hear what the MPC approach might be in coming quarters, given that GDP may surprise on the downside, with CPI on the upside and staying elevated for some time. 2020 should bring higher CPI than expected by consensus (after the December figure consensus should have adjusted somewhat, but there is space for more adjustment). Also in 2021 CPI should stay above 3%YoY, so for some time above the NBP target (2.5%YoY).

We think the MPC can accept an elevated CPI for some time.

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