

Poland: MPC hold rates flat, bias is rather dovish than ultra dovish before

The market expectations for hikes may even rise above 60 basis points in a two-year horizon, given that they are driven much more by external commodity shocks than policy stance. We maintain our view on flat rates till 2020 as energy shock should not force CPI above the upper bound in 2019



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1.5 Reference rate
unchanged

As expected

The Monetary Policy Council (MPC) left rates unchanged. The main change in the MPC press release was the point on the strong rise in oil prices, but the Council added that low core inflation in the Eurozone offset its impact. Other parts of the statement remain completely unchanged. The

Council repeated that the GDP outlook is positive (with expected slower dynamics than 2018). The most important summary passage also has not changed and still says that CPI should stay within the target range in the monetary policy horizon.

An important point during the press conference was the National Bank of Poland (NBP) President Glapinski's forward guidance. Similar to last month he was less explicit with regards to monetary policy outlook in 2020, but he held his view that rates should stay flat until the end of 2019.

The other important takeaways of MPC press conference are the following:

Impact of oil and electricity shocks

The MPC sees these as exogenous shocks, which stays outside the monetary policy impact. We understand that as long as the shock doesn't push the consumer price index (CPI) above the upper bound, the MPC can downplay its impact. With Brent at US\$80/bbl and a 10% rise of wholesale and 7% rise of retail energy prices, we see CPI bottoming in Nov-18 at 1.5% YoY (vs 1.2% seen before) and CPI peaking in 1H19 at 3% (instead of 2.6% YoY seen before), but still the upper bound doesn't seem to be at risk in 2019. The Jul-19 NBP projections already assumes average CPI in 2019 at 2.7% YoY, so we don't expect the new projection to change significantly. It is rather the structure of CPI in 2019 which may be amended (lower core, higher energy and food). The reason why the MPC is less explicit with regards to 2020 is that the previous projection already showed average CPI at 2.9% YoY, so with new shocks, the upper bound is near. In our view this is offset by GDP moderation we expect in that year.

Academic discussion on unorthodox measures

It seems the long period of flat rates without any decision has forced MPC members to discuss innovations in monetary policy conduct of other central banks. The Council was grilled with respect to unorthodox measures some MPC members mentioned in interviews. We understand that the MPC wants to have them in the toolkit, but their use is very unlikely in the next 1-2 years, so this is rather an academic discussion.

Many of the new instruments are allowed based on central bank law and constitution, so it can be seen as an extension of the NBP toolkit, but so far are not needed. Perhaps in the future, when the economy slows unorthodox measures can be used, but this is a distant story.

In terms of lengthening maturity of open market operations, there is no need to use them as the O/N rate is close to the reference rate, Glapinski said.

The hypothetical corporate bond purchase is allowed, but we understand that there is a scarcity of high-grade papers eligible for purchase. Hypothetically, this instrument is possible, but again this is a very distant story given that nominal rates are highest in the region, except for Romania.

Glapinski also added that the Hungarian experiences are interesting but not necessary to use in Poland due to a significantly different backdrop of the economy (in Hungary high local savings, in Poland scarcity).

On strong households credit and weak corporate investments

The MPC is not concerned with strong households credit and still weak investments as well as corporate credit. The weakness of investment is more a structural problem than cyclical, which

means it is rather outside the monetary policy impact, Glapinski said. He did not refer to his comment from last month that investments are underestimated in national accounts, due to the popularity of leasing as opposed to bank credit. In our view, his point was incorrect. The banking tax crowded out some corporate credit as opposed to leasing in funding of investments. But the statistical office captures total investments in GDP. The only distortion is that leasing is changing the investments structure in GDP (less in the corporate sector, more in the banking sector as fixed assets acquired via operational leasing are booked in financial institutions books instead of the corporate sector).

Summary

The MPC bias has changed to dovish from ultra-dovish before. The market expectations for hikes may even rise above 60 basis points priced in a two-year horizon, given that they are driven much more by external commodity shocks than policy stance. But we stick to our forecasts on flat rates till the end of 2020 as we maintain our view that the upper bound of the CPI target is not at risk in 2019, even in the case of Brent at US\$90/bbl and a 7-10% rise in electricity prices.

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