Poland: MPC on hold, still sound dovish

The Council presents a high tolerance for wages acceleration and we still expect a first hike in 4Q18

The decision to keep rates flat was hardly surprising. In the post-meeting statement the MPC admits that wages accelerated and investments finally recovered, but the bottom line remains unchanged. Governor Glapinski repeated his mantra on flat rates until the end of 2018.

The Council finds the stronger wages dynamics as a positive phenomenon from the households' wealth perspective, but it is nicely offset by productivity. Hence, unit labour costs dynamics remains subdued and is not a threat to the NBP inflation target.

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Moreover, the MPC still mentioned some headline CPI deceleration in the coming months (to 1.5% YoY in Dec-17 in our view), while core should keep rising but remain under control due to the disinflationary external backdrop offsetting domestic pressure. The CE4 experiences incomes acceleration and their pass-through on CPI and cross country comparison of unutilised labour (in

Poland much more than somewhere else) still call for patience and there is no need to hurry with monetary tightening.

Some MPC members, ie, Professor Ancyparowicz seems to be more sensitive to current data. She admitted the hike may appear before the end of 2018, but she assigns quite negligible probability of tightening at 10-15%.

The MPC sees a marginal upward revision of NBP inflation projections to be presented in Nov-17, but the scenario of CPI exceeding the 2.5% YoY target is still a very distant story.

Overall, the MPC stance changed from ultra-dovish to dovish. Together with GDP dynamics approaching 5% (we see 4.6% YoY in 3Q17) and non-linear acceleration of wages in the coming quarters (we see dynamics of wages in 2018 higher than the NBP and close to 7% YoY average), the bias may change further, but hikes still seems to be a distant story.

External factors (low Eurozone inflation and US$/PLN drop) should offset much of the upward pressure coming from higher wages. We keep our call for the first hike in 4Q18.

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