

## Polish MPC should maintain dovish bias but refrain from easing due to fiscal stimulus

In our view, the central bank should refrain from the easing discussion as the fiscal stimulus in the 2019 election year should keep the Polish economy resilient, despite the sharp slowdown expected in Germany and the Eurozone



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As expected, Poland's central bank decided to leave rates unchanged today at 1.5%, and we think during the press conference, the Council should maintain its dovish tone.

Since the last meeting, worries about global growth have worsened, and domestic inflation has fallen further to 1.1% in December.

Also, the government announced a kind of pre-election measure aimed at offsetting rising electricity prices, which also deducts from the 2019 CPI trajectory. So this year, we expect average CPI to stay at a subdued level of 2% YoY or lower and this supports our long-standing expectations for unchanged rates in 2019 and 2020.

A week ago, market expectations for hikes reached a bottom - as PLN yield curve saw almost unchanged rates in the two-year horizon. Since then oil prices rose, and core yields rebounded sending hikes expectations slightly higher.

But still, the question is whether the new wave of weak activity data abroad can send markets expectations in PLN into the easing territory. In our view, it is still a distant story, and the MPC should refrain from the easing discussing today.

So far the slowdown in Poland has been less abrupt than the slide in PMI and Eurozone activity data are calling for. Also, 2019 is an election year so we expect up to 0.7-1% of GDP (PLN15-22bn) extra fiscal stimulus.

Today, the finance minister Teresa Czerwinska said: "2019 central deficit should be close to PLN 28.5 billion, so the ministry of finance holds unchanged plan of 2019 deficit (a number the ministry mentioned about half a year ago), even though 2018 central deficit proved to be about PLN 10-15 billion lower comparing to Ministry expectations from August (PLN 24 billion)."

That makes space for some extra spending in Poland and the GDP less sensitive to the Eurozone and German slowdown, which is why we think the central bank should refrain from the easing discussion.

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