Poland: MPC stays on hold, expect a dovish tone

The new projections should calm down central bank worries about a tight labour market and its impact on inflation. We expect a more dovish tone later today

1.5% NBP policy rate

As expected

As widely expected, the Polish central bank decided to leave rates flat (the main rate at 1.5%).

The key takeaway from this Monetary Policy Committee (MPC) meeting will be how the Council bias changed after National Bank of Poland updated its macroeconomic projections. The strong GDP dynamics, solid rise of wages and some unfortunate comments by Governor Glapinski in Davos have raised rate hike expectations to 70bp in 2019.

Market expectations for rate hikes in 2019 have already declined to 60bp now, and we still see more space for a dovish market reaction. We assume a 50bp increase next year, with risk skewed to the downside. Overall we expect the tightening cycle to be relatively short-lived. The adjusted Taylor rule presents 2.25% as a natural interest rate.

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We assume that the March central bank projections should trim some MPC members worries about the tight labour market and its impact on inflation. The NBP projection should show a lower path of both core and headline inflation for 2018, backing a dovish stance.

During the press conference, the MPC is unlikely to communicate hikes are off the table. However, some members may confirm staying in “alert mode” (or “wait-and-see” approach). But still, recent data and new projections should soften Council worries about labour market overheating and its impact on inflation.

In our view, the MPC assumes that later CPI peak increases the odds that it will coincide with a foreign economic slowdown and so the Council might avoid tightening.

Consequently, we stick to our call of assuming 50bp in hikes in 2019 with an increasing downward risk. Some market participants expect a more hawkish bias, but we think they will call against that.

Author

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

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