

## Poland: MPC unmoved by risk of target overshooting in 2019

The new projection shows CPI temporarily breaking the upper bound of the central bank's target in 2019. We expect the Monetary Policy Council to be more adaptive down the road. We still see flat rates till the end of 2020 due to downside risk to GDP growth



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The National Bank of Poland (NBP) press conference on the inflation outlook is for the baseline scenario of the new CPI projection to temporarily break the upper bound of the NBP target in 2019 (CPI above 3.5% YoY). The annual average CPI forecast for 2019 was revised from 2.7% YoY to 3.25% on the assumption of a strong rise in wholesale energy prices. The forecast for 2020 remained nearly unchanged (at 2.9% YoY).

NBP governor Adam Glapinski reiterated that despite the risk of overshooting the target, rates should remain flat in 2019. Furthermore, he stated that without any new demand-side shocks in his opinion stable policy in 2020 is the most probable scenario. Glapinski assumes that direct drivers of inflation (cost of CO<sub>2</sub> emission, coal prices) remain outside of the Monetary Policy Council's (MPC) control and the potential for second-round effects or indirect spill-overs is limited.

Secondly, the NBP governor stated that the projection baseline scenario should be treated as a worst-case option due to conservative (high) assumptions. He added that the MPC needs to balance between the risk of a CPI increase caused by supply factors and the risk of slowing economic activity.

Centrist MPC members present at the conference have not directly challenged the governor's view. J.Osiatyński highlighted the supply-side nature of the inflation shock and stated that demand-driven pressure should weaken with stagnating wage growth. R.Sura was more dovish than Osiatyski and said that nothing has changed but added that the Council needs to be more cautious as changes in the labour market (potential outflow of Ukrainian workers) may increase prices.

In our opinion, the MPC seems to be less confident about the future rate path and should present a more adaptive or backwards-looking approach. Importantly, Governor Glapinski highlighted during the second part of the press conference that flat rates until 2019 is his opinion and could not be representative for the entire Committee. The market, as well as the MPC, should be much more sensitive to the upcoming figures, which should present what is the actual rise of electricity prices and how this affects headline and core CPI as well as how much external economies are slowing. We expect macroeconomic activity indicators (production, retail sales) and CPI in 1Q and 2Q of 2019 to have a much greater market impact on the policy stance than presently.

Before the NBP presented its projections, our CPI forecast were above the market consensus. We still expect flat rates as we are quite bearish on global and Eurozone growth and its impact on Poland. We reiterate our forecast assuming no change in policy until the end of 2020. A potential slowdown of the Polish economy in 2019 and 2020 should persuade the MPC to look through temporary a CPI spike in 2019.

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