Snap | 3 July 2019 POLAND

Poland: Rates flat today, MPC held neutral tone

The Polish central bank maintained its neutral tone despite the higher CPI. The new projections from the central bank match our forecasts

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The Monetary Policy Council (MPC) decided to keep interest rates unchanged. The bias of the Council has not changed and remained neutral. The MPC members present at the conference answered mainly questions about the need to raise interest rates in reaction to higher inflation readings and new projections. While the yield curve currently prices unchanged interest rates in 2019 and about half of the 25 basis point interest rate cut is priced in a 2-year horizon (the curve declined in this segment by around 10bp in the last month).

The representatives of the neutral wing of the MPC (Grażyna Ancyparowicz), dovish (President Glapiński) and hawkish (Łukasz Hardt) see no reasons to raise rates in reaction to the latest rise of headline CPI, core inflation or the ongoing consumption boom. In our opinion, the argument against interest rate hikes is the deepening of the global slowdown, as well as the new National Bank of Poland (NBP) projections (which are consistent with our forecasts) and showing that CPI should remain within the range around the inflation target in 2019-20. Similar arguments were used by the MPC members. We believe that only a permanent break of the upper limit above the CPI target may significantly change the MPC's bias, which seems unlikely at this stage. Motivations for holding rates flat may be different for specific MPC members (supporting the government, global slowdown or limited risk of permanent CPI rise above the upper bound). Nevertheless, the conclusion of the meeting, ie, maintaining a neutral attitude, is not controversial. We maintain our long-standing scenario assuming unchanged rates in 2019-20 and we believe that the next move by the MPC will be a cut (though this is still a rather distant story).

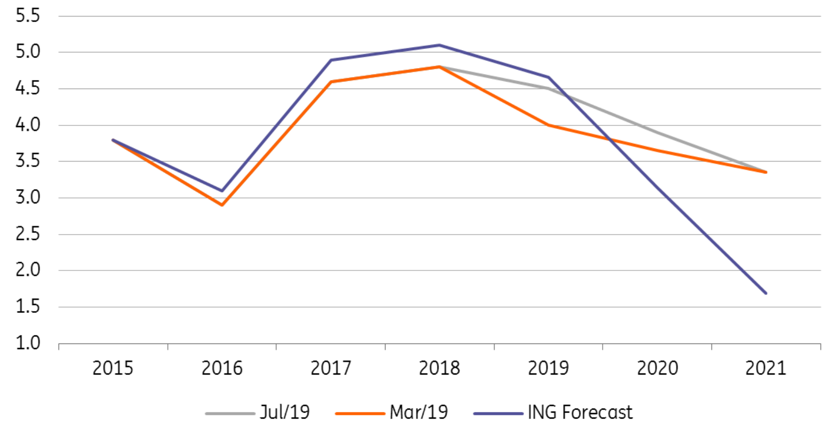
	2018	2019	2020
GDP			
Mid range of projection from July 2019	4.8	4.5	3.9
Change vs projection from March 2019	0.0	0.5	0.3
ING forecast	**5.1**	**4.7**	**3.1**
CPI			
Mid range of projection from July 2019	1.8	2.0	2.8
Change vs projection from March 2019	0.0	0.3	0.2
ING forecast	**1.7**	**2.1**	**2.9**

Source: NBP

The post-meeting statement was similar to the previous one. The MPC underlined that Poland remains resilient to the euro area soft patch and consumer spending should continue to expand on strong wages and election spending. The NBP also pointed out a recovery in investment – a statement absent previously. The key statement presenting the MPC view on the CPI outlook was unchanged despite recent upward surprises – the MPC reiterates that CPI is expected to remain near the NBP target (2.5% YoY).

The NBP presented new macroeconomic projections. Their revision did not bring any surprises. GDP projection for 2019 increased from 4% to 4.5% year on year, reflecting the better performance of the Polish economy in the first half of the year and generous election spending. Changes to the 2020 and 2021 GDP forecasts were more limited – the NBP likely assumes that the recent slowdown is transitory and expects a recovery of global growth in 2020, which we don’t subscribe to. Similarly, there were minor amendments to the CPI inflation trajectory.

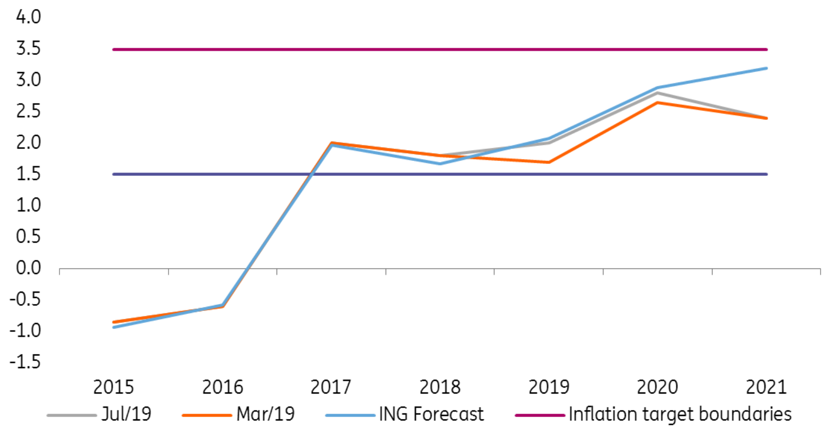
NBP projections for GDP vs ING forecasts



Source: NBP and ING forecasts

The 2019 CPI projection was revised from 1.7% to 2% YoY. We expect more significant changes in the CPI structure, ie, higher dynamics of food prices and slightly lower core inflation & energy prices. The 2020 CPI projection changed marginally – we think the details of the projections (to be presented on Monday) should show rising core CPI next year, which should be offset by the negative drag from statistical effects on food prices.

NBP projections for CPI vs ING forecasts



Source: NBP and ING forecasts

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