

Poland: Rates on hold despite GDP and CPI beating expectations

However, the central bank cut interest rates on mandatory reserves, which are likely to burden commercial banks marginally by PLN0.4bn



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The decision to leave main rates unchanged was widely expected due to the long-standing Monetary Policy Committee (MPC) and National Bank of Poland (NBP) governor guidance on flat rates. However, the MPC cut interest rates on mandatory reserve (from 1.35% to 0.5%), which is a limited burden for commercial banks and should boost NBP profit marginally by PLN0.4bn (out of PLN9.2bn an extraordinary high profit reached last year). The decision was released later than usual, but we think reference hike was not voted.

During the press conference (at 4 PM CET), MPC should hold the tightening-averse bias. 3Q17 GDP and November CPI figures surprised on the upside, and we expect those figures to keep exceeding the latest NBP projections also in 4Q17. But our expectations on the non-linear wage spike are beginning to materialise.

But the key variable here is the core CPI, which remains subdued, in line with our and the central bank's expectations. The recent headline CPI acceleration has been due to food and energy which is firmly outside the MPC's impact.

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MPC hawks expected to support hike in 1H18

of the six required to vote against NBP president

E.Gatnar, Ł.Hardt, K.Zubelewicz and J.Osiatynski are the only four MPC hawks; we see disagreeing with the NBP governor's forward guidance who expects flat rates until the end of 2018.

They four MPC hawks seem to be ready to hike sometime in 2018 but passing a hike against Chairman A.Głapiński's double vote, requires two additional members' support. The swing voters approach will be key to determining whether MPC consensus is changing and odds of a rate hike rising.

We still think they are averse to monetary tightening. The November NBP projections helped the governor to contain swing voters' calls for hikes and today they followed the governor.

We stick to our view assuming the hike in 4Q18 with 30-40% of the earlier move.

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