

## Poland: The MPC stays dovish but is against easing in a two-year horizon

The MPC left rates flat as widely expected. The case for flat rates in 2018-19 even strengthened but the Council seems to be against rate cuts in that period or even longer. We stick to a call of a single hike in 2019 with downward risk



The Monetary Policy Council (MPC) left rates flat, in line with market expectations and the Council forward guidance presented before. The associated statement hardly changed, it points out that CPI and core were very low in March 2018 (core 0.5% YoY from 0.8% YoY in February), but on the other hand the NBP remains optimistic on GDP and investments acceleration, both public (we agree) and private (we are less bullish here due to the recent drop in the estimated value of new investment projects). Most importantly, the summary passage stayed unchanged calling for flat rates. Additionally, the statement doesn't point out that 2019 CPI may be lower due to subdued March 2018 inflation causing a downward revision of the 2018 average CPI projection.

The tone of the press conference was dovish, but rather against easing some investors recently asked us about. The NBP governor said that case for flat rates even strengthened and he extended his forward guidance to 2019 (last month Professor Glapinski was less sure about 2019, ie, he said

“rate increase in 2018 is unlikely, 2019 – really don’t know, maybe in 4Q19 or not at all”). But simultaneously he sent a clear message that the economy does not need easing now, which calls for stabilisation of current pricing of hikes.

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*MPC extends the forward guidance on flat rates to two years but seems to be against interest rate cuts even in 2020*

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Both the governor and ultra doves refused to comment on interest rate cuts. Governor Glapinski said that in 2020 maybe the economy will need some easing (especially in the situation when DM growth slows). He said interest rate cuts is not a preferred measure, as this can be negative for the Polish banking sector (we understand the current government is trying to support cooperative banks). He rather suggested that the NBP should develop its expertise in other alternative monetary easing measures tested in Hungary or the Eurozone.

The Council also said recent PLN strengthening was impressive but still doesn’t undermine the competitiveness of the economy, nevertheless, further appreciation is unnecessary.

Overall, we find the statement and press conference were in line with our expectations. Even very low March CPI and core have not shifted the bias to ultra dovish (the MPC refused to discuss interest rate cuts) some investors asked us recently. This shift of MPC bias would serve as a trigger for a further drop of hikes expectations below 30bp currently priced, but it has not happened. We stick to our call assuming a single hike in late 2019 with major downside risk. Should Friday's release of CPI details for March shows that the slide of core inflation was caused by sustainable factors (not the technical issues like change of clothing prices measurement) we may drop our 4Q19 hike from our baseline scenario and see flat rates in this cycle.

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