Poland: The MPC stays very dovish

New projections from the Polish Central Bank help contain discussions about earlier hikes. Governor Glapinski repeats his mantra of flat rates until the end of 2018.

The Polish Monetary Policy committee has kept rates on hold. Perhaps more important are the new Polish Central Bank (NBP) projections and their impact on the MPC bias. CPI has been revised upwards for next year and 2019 by 0.25 and 0.2pp respectively. The NBP sees average CPI next year at 2.25% year-on-year, so still below the NBP 2.5%YoY target. That helped the governor to contain discussion about earlier hikes, in line with our non-consensus expectations. Even MPC hawk Hardt is not keen to tighten given the ECB's slow normalisation.

2019 average inflation is expected at 2.7%YoY (ie above target), but the MPC has communicated its low confidence in long-term forecasts so that's not impacting Council decisions. Overall, the tone of the press conference was dovish. The NBP governor said, "*Changes to projections are so slight that I do not change my opinion* (on flat rates until the end of 2018)".

Other constraints to tightening are a rather restrictive policy mix (stronger PLN, tighter fiscal stance as better tax collection is evidently a new burden for companies offsetting the demand effect coming from child benefit and the lower pension age). Glapinski also expressed his concerns about uncertain effects of monetary policy normalisation in the US and the eurozone and their impact on GDP growth.

The majority of the MPC is worried about weak investments and sees GDP growth driven by consumption as non-sustainable. Even MPC Hardt is not keen to tighten given the slow normalisation of monetary policy in the eurozone. The MPC also points out that the easing cycle in Poland finished at a relatively high level of rates, so the NBP doesn't need to follow the Czech National Bank which starts from a very low rate base.

National Bank of Poland GDP and inflation projections

	2017	2018	2019
GDP			
Mid-range of projection from Nov-17	4.2	3.7	3.3
change vs projection from Jul-17	0.1	0.2	0.0
ING forecast	4.2	4.1	3.5
CPI			
Mid range of projection from Nov-17	2.0	2.3	2.7
change vs projection from Jul-17	-0.1	0.3	0.2
ING forecast	1.9	2.2	

Source: NBP

We agree with the MPC that pre-emptive tightening is definitely not needed. Our models point that Eurozone low inflation and commodity prices below the 2010-2012 level are strong disinflationary factors partially offsetting the impact of accelerating wages.

The MPC will be under strong pressure in the coming months.

We stick to our view that the non-linear acceleration of wages will continue. We also don't share the NBP governor's expectations that productivity should soon surpass wage dynamics.

We stick to our call assuming a first hike in 4Q18 only; that's earlier than Glapinski's forward guidance assumes. The MPC also decided to cut the mandatory reserve for deposits with duration over 2Y of residents. The impact of this decision on interbank liquidity is negligible as these despots are only about 5% of the total. The idea was to reconcile with foreign deposits held in Polish banks, which are not burdened with mandatory reserve. The MPC dovish rhetoric surprised the market given that the consensus expected a much more hawkish stance following recent comments of Osiatynski, Ancyparowicz and Kropiwnicki.

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