Poland:rates flat, press conference to focus on FX-loans and minimum wages

The MPC has decided to keep rates flat. We expect its press conference (at 4PM CET) to be neutral or slightly negative for POLGBs prices. The Council should maintain its bias for keeping interest rates unchanged, but the discussion on the effects of doubling the minimum wage could activate MPC hawks, leading to longer-term inflation outlook worries.

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- Today the Monetary Policy Council should – in our opinion - uphold its preference for stable policy rates. A.Glapiński – the NBP President - should say that CPI exceeding the upper bound of the inflation target in 1Q20 (3.5% YoY) should be a temporary phenomenon. Therefore raising policy rates would be without justification, all the more so as the main DM central banks are loosening their monetary policies.
- The consequences of an expected ECJ ruling on FX-mortgages will also be an important topic of MPC discussion.The focus will be on the tools the NBP or Financial Stability Committee (FSC) have to alleviate problems in the banking sector should those FX-mortgages eventually have to be converted to PLN. These problems could arise from an unfavourable ECJ ruling, or from clients seeking recourse in the Courts and the possible need for commercial banks to set aside provisions. The position of the NBP President will be

of upmost importance in the Financial Stability Comitee decision.

- We expect that journalists at the press conference will ask about the steep rise in the minimum wage (to nearly double by 2024) proposed by the government last weekend. The NBP President will be expected to give his opinion on the consequences of such a course of action for wage dynamics in the whole economy, for inflation, and for the competitiveness and innovation of Polish enterprises. According to our estimates these strong minimum wage rises should add 1.2-2.2ppt to average salary dynamics in 2020 and maintain this elevated growth in following years. Each 1ppt of wage growth adds 0.3ppt to CPI. We see some upside risk to our above-consensus forecast for average CPI for 2020 at 3.2% YoY (3.2-3.5% YoY), but no longer expect CPI slowdown in 2021 (when the economy is prone to slow). In 2021 we expect average CPI to be close to 3-3.2% YoY. The NBP governor has already said that doubling the minimum wage does not hold risks for the economy, a view we don't subscribe to. We think the discussion should activate MPC hawks, raising concerns about the longer-term inflation outlook.

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