

## Polish MPC looks away from structural causes of CPI surge

The Monetary Policy Council maintains its narrative that the recent CPI spike is caused by external factors that are outside its influence. The National Bank of Poland governor reiterated that rates should remain unchanged for at least the next two years. Despite disagreement within the MPC, we believe that this scenario will hold



### More than the usual grain of salt needed

In our opinion, the MPC statement and the conference call lacked a critical assessment of the causes of inflation and perspectives of economic activity in Poland. Current dynamics of prices was called moderate despite the fact that core inflation reached 3.1% year on year. This indicator already exceeds the center of the NBP inflation target and it will increase even further in the coming months in our opinion. Non-core inflation (food and energy) is on the rise as well, which should result in CPI exceeding 4.0% YoY for a few months - well above the upper bound of the NBP target (3.5%).

Most questions at the conference call concerned the sources of the inflation spike in December (to 3.4% YoY). Last month, Governor A.Glapiński attributed it to temporary factors (regulatory prices, eg, for waste collection) and disregarded structural causes, such as fiscal expansion and sharp rise

of the minimum wage. However, the second reading two weeks ago showed that the CPI surge was demand-driven as core CPI accelerated to 3.1% YoY. Despite this fact the NBP governor did not change his position. He did not comment on the rise of core inflation, on labour costs and fiscal easing. Instead, he reiterated the opinion that the CPI rise was caused by external factors (not demand-related) outside of the influence of the NBP. These factors are:

- Drought and progression of swine fever causing food prices to surge.
- Rising prices of commodities (oil and gas) due to international conflicts.
- Rising electricity prices due to the climate policy of the European Union.

Without disregarding these factors, we think that the December CPI spike has structural causes that will last longer than the MPC expects. The record high increase in the minimum wage this year (by 15%) and introduction of occupational pension pillar are raising labour costs. It is hard to believe that these factors do not impact inflation. Hawkish members of the MPC, represented by K.Zubelewicz during the conference call, seem to agree with us, but they are outnumbered in the MPC.

## Structural factors of the economic slowdown omitted

The economic slowdown in Poland is caused solely by external factors - according to the NBP governor. This opinion seems, however, inconsistent with his other comments at the same conference call in which he drew attention to stable exports of Polish enterprises.

In our view, the slowdown of the Polish economy is being caused by the inhibition of internal demand. The impact of social transfers is lower than expected by policymakers, because people have lowered their propensity to consume and save more. Simultaneously, companies are reluctant to invest due to regulatory uncertainty and negative sentiment. The spike of investment in 4Q19 should be short-lived as it was to a large extent caused by a one-off factor - completion of power plant Jaworzno. Similarly, in 2020 public investments will fall, which is indicated by a strong slowdown in construction production or payments of EU funds (their pace has fallen from +67% to 0% YoY between 2018 and the second half 2019). Therefore, in our opinion, the GDP rate in 2020 will amount to 3.0% YoY, and thus will be lower than the NBP expected in the previous projection.

The MPC's tolerant approach to further CPI growth or downplaying structural causes of inflation and economic slowdown reinforces our belief that rates will not change at least until the end of 2021.

### Author

#### Rafal Benecki

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.