

POST-MPC COMMENT

6 May 2015

Monetary policy on hold

Monetary Policy Council did not surprise in May, keeping interest rates on hold and making only slight changes in the official post-meeting communique. It should not be surprising, given that the recent macro data confirmed acceleration of economic growth and improvement in the labour market, inflation started bottoming out, and zloty appreciation trend has stalled since the previous MPC meeting. Thus, there were not reasons to change monetary policy bias. We expect that Polish interest rates will remain stable for over a year – only at the end of 2016 first rate hikes are possible in reaction to gradual inflation rise towards the official target.

In line with expectations, Poland's Monetary Policy Council left NBP's rates unchanged at its May's meeting. The reference rate is still at 1.50%.

The MPC decision was no surprise at all. Recent macro data confirmed the acceleration of economic growth and a further improvement in the labour market, while inflation rate has started to bounce from the bottom, and the zloty appreciation trend has stalled since the last meeting of the Council. Therefore, the MPC did not have any reasons to change its stance. It seems that the lack of controversy within the MPC was reflected in both the timing of the decision announcement (which was relatively early), and only minor changes in the content of the communiqué in comparison with the previous month.

The Council pointed out in the statement that the growth in economic activity is steady and highlighted an improvement in the labour market and increase in lending, but also stressed the lack of demand pressure and cost pressure. On the other hand, the MPC noted that economic growth acceleration and situation on the labour market limit risk of maintaining the inflation CPI below the NBP's target in the medium term.

During the press conference NBP governor Marek Belka said that the central bank is optimistic as regards the short term economic outlook and it expects that growth will be accelerating fuelled by consumption, investments and exports. Also, the MPC anticipates a gradual rebound in CPI that should leave the negative territory at the year end. At the same time, Belka mentioned factors that could limit the pace of prices growth in the longer term – relatively low growth in the global economy, population aging and higher propensity to save. Interestingly, Jan Winiecki, perceived as one of the most hawkish MPC members, agreed with this view and said that we will probably face a below-average economic growth and anti-inflationary pressure in the global economy. He added, that in those circumstances expectations that Polish economy could generate a significant increase in inflation are unrealistic.

In general, the MPC meeting did not change our expectations about monetary policy prospects. We expect no changes in the interest rates until end of current MPC term or even longer, i.e. until the end of 2H16, when rates may go up in reaction to gradual rise of inflation towards the target.

Pressure on rate cuts could rise if the zloty appreciated strongly and quickly in nearest months. However, the pressure of worries about Greece are effectively stopping this trend. Moreover, in our view the stronger macro data appear in the economy, the more considerable zloty strengthening is necessary to cause a reaction of the central bank. Meanwhile, we are expecting improvement of macro indicators and acceleration of economic growth (to c4%YoY in Q4) amid gradual rebound of CPI (yet annual CPI growth will most probably remain negative until end of Q3).

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warszawa fax +48 22 586 83 40

email: ekonomia@bzwbk.pl Web site: <http://www.bzwbk.pl>

Maciej Reluga (Chief Economist) +48 22 534 18 88

Piotr Bielski +48 22 534 18 87

Agnieszka Decewicz +48 22 534 18 86

Marcin Luziński +48 22 534 18 85

Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400

Fragments of the MPC statement (indication of changes as compared to April statement)

Growth of global economic activity remains moderate, with a slight acceleration expected in 2015. In the euro area economic growth remains ~~slow compared to other developed economies~~ **relatively low**, although incoming information signals a gradual improvement of economic conditions. In the United States, despite the ~~recent deterioration of some indicators~~ **weakening of GDP growth in 2015 Q1**, the recovery is expected to continue. In turn, the economic outlook for Poland's eastern trading partners, i.e. Russia and Ukraine, remains unfavourable.

After a sharp and long-lasting fall, global commodity prices have ~~stabilised~~ **risen slightly** recently. This has weakened disinflationary forces in many countries. However, global price growth remains very low, and in ~~the majority of many~~ European economies it is negative. In these conditions, major central banks are keeping interest rates close to zero and the ECB ~~has launched government bond purchases. This has contributed to some strengthening of the zloty.~~ **is continuing its asset purchase programme, which is contributing to higher financial asset prices in many European countries.**

In Poland, economic activity remains stable, with GDP growth in 2015 Q1 probably slightly higher than in 2014 Q4. Rising domestic demand fuelled by improving labour market situation, good financial condition of enterprises and stable expansion in lending, remains the main driver of economic growth. In turn, the ~~relatively low, although accelerating, growth in demand on the part of~~ **from** Poland's main trading partners ~~and the continued uncertainty about the prospects for demand are factors limiting economic activity in Poland~~ **drags down economic activity in Poland.**

~~Amid~~ **Due to** moderate growth in demand and ~~gradual improvement in labour market conditions~~ **the continuing negative output gap**, there is no demand pressure in the economy. ~~and nominal wage growth remains moderate. Combined with low commodity prices, this is contributing to continuing deflation, both in terms of consumer and producer prices. Alongside that, inflation expectations continue to be very low.~~ **At the same time, low commodity prices and moderate nominal wage growth are contributing to the continued lack of cost pressure. As a result, the annual growth rate of consumer and producer prices remains negative, and inflation expectations are very low.**

In the opinion of the Council, the annual price growth will remain negative in the coming quarters, mainly due to the previously observed sharp fall in commodity prices. At the same time, the ~~adjustment of monetary policy in March~~ **with continuing stable** ~~expected~~ **gradual acceleration of** economic growth, ~~an expected~~ **amidst** recovery in the euro area and good situation in the domestic labour market, reduce the risk of inflation remaining below the target in the medium term. Therefore, the Council decided to keep NBP interest rates unchanged.