

# POST-MPC COMMENT

3 June 2015

## Nothing new in the monetary policy

The Monetary Policy Council did not surprise and kept interest rates on hold at its June's meeting. We expect no changes in the monetary policy until the end of current MPC term (or even longer, until 2H2016) and even though the July's meeting will be a bit more interesting given release of new inflation and GDP projection, domestic monetary policy will be probably quite boring in the coming months.

The bond market saw a strong sell-off today, but this was not a reaction to domestic monetary policy, but rather a response to a yields' surge in the core debt markets. End of the week may be especially volatile in the Polish market due to lower liquidity and absence of domestic investors during the long weekend.

Poland's Monetary Policy Council decided to keep NBP interest rates unchanged. The reference rate remains at the level of 1.50%.

The Council's decision was in line with expectations. Some of recent high-frequency data were a bit disappointing, but in general the economy remains on a solid growth path, in our view. GDP growth is accelerating, driven by both booming external and strong domestic demand. Real wages are growing, inflation started bottoming out, the zloty stopped appreciating. In this situation the economy simply does not need additional monetary stimulus. Comments of majority of the MPC members in recent months clearly indicated that they share a similar point of view (both doves and hawks). Moreover, the NBP governor Marek Belka repeated at today's press conference the statement from the previous month that something extraordinary would have to happen to change the Monetary Policy Council's current belief that interest rates should be kept on hold. Nothing like this is on the horizon, in his opinion.

The official MPC statement did not change much as compared to May. The Council maintained its assessment that gradual acceleration of economic growth should limit the risk of inflation staying below target in the medium term. Lower growth rates of industrial output and retail sales in April were assessed by the MPC as temporary (in line with our view).

As a result, we still think it is highly likely that until the end of current MPC term of office the main interest rates will remain stable, and the coming MPC meetings may be unexciting from the point of view of the financial markets. Meeting in July may be a bit more interesting, as new inflation and GDP projections are due for release – it seems that they may show higher forecasts than earlier, but it will not be enough to encourage the central bank to act. Monetary policy of the new Monetary Policy Council is subject to a greater uncertainty, as it is hard to speculate right now about its line-up (it will depend on the results of October's general election). Still, given current circumstances and our economic forecasts, we expect the first hike of interest rates in Poland in the final quarter of 2016.

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

Growth of global economic activity remains moderate, although a slight acceleration is expected in 2015. In the euro area **a gradual recovery is underway, although** economic growth remains low, ~~although incoming information signals a gradual improvement of economic conditions.~~ In the United States, despite the weakening of economic data in the first months of 2015, the recovery is expected to continue **in the coming quarters. At the same time, in most major emerging economies activity is weakening, and** the economic outlook for Poland's eastern trading partners, i.e. Russia and Ukraine, remains unfavourable.

After a sharp and long-lasting fall, global oil prices have risen slightly in recent months. This has weakened disinflationary forces in many countries, **fuelling increase in price growth in the euro area.** However, price growth in the global economy remains very low, and in many European economies it is negative. In these conditions, major central banks are keeping interest rates close to zero and the ECB 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~~ **real GDP growth accelerated in 2015 Q1 (to 3.6% from 3.3% in 2014 Q4).** Increase in domestic demand, **including consumption and investment,** fuelled by an improving labour market situation, good financial condition of enterprises and stable expansion in lending has remained the main driver of economic growth. **Economic recovery has been also spurred by accelerating exports, supported by improvement in economic activity in the euro area. April saw, however, a decline in industrial output growth and retail sales growth, although this was most likely temporary.** In turn, the low, although accelerating, growth in demand from Poland's main trading partners drags down economic activity in Poland.

Due to the moderate growth in demand and the continuing negative output gap, there is no demand pressure in the economy. 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, **although the slight increase in fuel and food prices in the recent period has limited the scale of deflation. However, producer prices growth remains markedly negative,** and inflation expectations are very low.

In the opinion of the Council, the annual price growth will remain negative in the coming ~~quarters~~ **months,** mainly due to the earlier sharp fall in commodity prices. At the same time, the expected gradual acceleration of economic growth, 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.