

POST-MPC COMMENT

6 October 2015

MPC not concerned about the economy

The Monetary Policy Council once again kept interest rates on hold (the reference rate at 1.5%). In line with what we had expected, the recent data did not change the central bank's economic outlook and the NBP still anticipates inflation will rise and the pace of economic growth will remain stable and solid (and the output gap will be closing gradually). Central bank governor Marek Belka said that there is no room for a noticeable modifications in the monetary policy and there should be no such room also after the end of the current MPC term. Moreover, the most dovish Council's member, Jerzy Osiatyński (who is the only member that remains in the MPC for the next year) suggested he does not see rationale to cut rates as the effectiveness of such actions could be very low.

In our view it is very likely the monetary policy will remain unchanged until the end of the current Council's term. We expect rates to stay flat also in 2016 amid stable GDP growth and inflation heading gradually to 2%.

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

Growth of global economic activity remains moderate. In the euro area, ~~economic~~ the recovery continues and the latest data point to stable GDP growth in this economy, ~~despite slight weakening of GDP growth in 2015 Q2~~. Also in the United States, data indicate a further rise in economic activity ~~output growth has picked up~~. At the same time ~~in turn, economic growth in China economic conditions continue to deteriorate~~ 2015 Q2 remained low as for this country and incoming data indicate that economic conditions ~~might deteriorate further~~. Along with ~~deepening recession~~, while in Russia and Brazil remain in recession, ~~this caused the increased concerns about the growth outlook of the developing countries~~. Therefore, concerns about the economic growth outlook in the emerging market economies persist, which increases uncertainty about economic conditions worldwide.

~~The rising risk of a stronger slowdown in emerging economies led to deterioration in the financial market sentiment and in effect to a drop of prices of many assets. In addition, prices of most commodities, including oil, have fallen again in the global markets. Amidst moderate global economic activity and low commodity prices, price growth~~ Inflation abroad remains very low and in many countries ~~remains very low~~ it declined again, driven mainly by a renewed fall of commodity prices in recent months. In ~~the United States and the euro area, inflation is still close to zero, while in some European economies prices continue to decline~~ price growth has turned negative again and the forecasts for the coming quarters have been revised downwards.

~~Major central banks keep interest rates at close to zero, but~~ Against this background, the Federal Reserve is signalling a possibility of their increase this year. ~~At the same time, and the ECB continues its asset purchase programme are keeping their interest rates close to zero. The ECB also continues its asset purchase programme and signals its extension. At the same time, the Federal Reserve indicates a likely increase in interest rates. The uncertainty about monetary policy of major central banks and concerns about the outlook for economic growth in emerging market economies are causing elevated volatility in global financial markets. The People's Bank of China has devalued the yuan, what was conducive to weakening of some emerging markets' currencies.~~

In Poland, ~~GDP growth in 2015 Q2 was slightly weaker than in the previous quarter~~. stable economic growth continues, ~~to be driven primarily by consumption, rising domestic demand, which is supported by favourable labour market situation developments, consumer confidence and financial standing of enterprises, as well as by stable and growing household lending growth. GDP growth was also driven by further growth in investment — although weaker than in 2015 Q1 — fuelled by good financial condition of enterprises. In turn, contribution of net exports to GDP growth declined markedly. July data on production and retail sales point to a stabilisation of~~ Recently released economic growth in the following quarters activity indicators were lower than expected, but their decline will probably prove temporary.

~~Due to~~ As demand is growing at moderate ~~growth in demand~~ pace and the ~~continuing negative~~ output gap is still negative, there is no inflationary pressure in the economy. ~~Moreover, low commodity prices and moderate nominal wage growth limit the risk of rising cost pressure. As a result, the~~ Both annual consumer price growth ~~remains negative, although the scale of the deflation is gradually~~

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~~diminishing~~, and producer price growth ~~is also~~ remain negative and ~~inflation expectations are running low~~, declined slightly last month. Deflation has deepened mainly due to falling commodity prices in global markets. Amidst moderate wage growth, this contains the risk of increasing cost pressure. Inflation expectations are still very low.

In ~~the opinion of~~ the Council's view, price growth will ~~continue to~~ increase slowly ~~increase~~ in the ~~nearest~~ coming quarters, ~~its~~ growth will be supported by the expected ~~stable~~ closing of the output gap amid improving economic ~~growth~~ conditions ~~amidst the~~ recovery in the euro area and a favourable ~~situation in the~~ domestic labour market developments. At the same time, ~~increasing~~ persisting risk of stronger economic slowdown in the emerging market economies, ~~and the declining~~ low commodity prices ~~have~~ raised the ~~uncertainty about the pace of~~ and weaker inflation ~~returning to the target~~ outlook abroad result in increased uncertainty about the pace of inflation returning to the target.

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