Bank Zachodni WBK
Grupa Santander

POST-MPC COMMENT

14 January 2016

Farewell on a dovish note

At its last meeting in the current line-up, the Monetary Policy Council kept interest rates unchanged, in line with expectations. The reference rate is still at 1.50%. The official MPC statement did not change much, yet the Council acknowledged that inflation rate in the coming quarters may be lower than earlier expected due to renewed decline in commodity prices. During the press conference the NBP president Marek Belka said that the NBP's inflation projection for 2016 will go down by a significant fraction of a percentage point and the deflation will not end at the turn of 2015 and 2016, but will last for a considerable part of 2016 (this is in line with our forecast). At the same time, Belka did not rule out that the GDP forecast will go up slightly. NBP governor admitted that the lower inflation is intuitively supporting further monetary policy easing, but turbulences on the global financial markets call for cautiousness in changing rates. The NBP governor is not expecting higher MPC eagerness to cut just because of the change in its line-up, but he also said that the Council will respond to the changing economic situation. Marek Belka stated also that the zloty weakening is mainly due to siatuation in global markets and NBP will not fight the FX market trends.

In our view, downward revision of inflation path by Poland's central bank and the extended period of deflation will favour to monetary policy easing. We expect a rate cut by 25 bp in March, after release of a new NBP's Inflation Report and next one probably in the second quarter of this year.

The MPC has approved its opinion about the 2016 budget draft. It will be published on Friday at 10:00 am local time.

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 December statement)

~~Growth of global economic activity remains moderate.~~ In the euro area **economic recovery continues, yet activity growth remains moderate.** ~~and~~ **In** the United States, ~~GDP growth slowed down in 2015 Q3~~ **– despite slightly weaker recent data – good economic conditions prevail**. ~~At the same time, incoming data point to the continuing recovery in these economies in successive quarters.~~ In turn, Russia and Brazil remain in recession, **and the outlook for these economies has further deteriorated.** In China, ~~GDP growth in 2015 Q3 decelerated again, but incoming data indicate its~~ **the data released in 2015 Q4 point to economic growth** stabilization, **albeit at a lower level than in the previous years**. ~~Yet,~~ the possibility of a further deterioration in economic conditions in the emerging market economies remains a significant risk for global growth.
In the recent period, prices of oil and energy commodities in the world markets have once again sharply declined. ~~Against the renewed fall of commodity prices in recent months,~~ **As a result** inflation in many economies – including in ~~the United States and~~ the euro area – remains close to zero. **At the same time, in some economies – including the United States – core inflation is significantly higher than growth in consumer prices, which is driven by the ongoing economic recovery.** ~~Against this background, the Federal Reserve and the European Central Bank are keeping their interest rates close to zero, although the Federal Reserve has announced an interest rate increase in the near future. At the same time, the ECB is continuing its asset purchase programme and is signalling the possibility of a further monetary easing.~~ **Against this background, the monetary policies of the Federal Reserve and the EBC continue to diverge. The Federal Reserve has increased its interest rates after seven years of keeping them at a near zero level. In contrast, the ECB has eased its monetary policy again, mainly by extending the period of the asset purchase programme and expanding its scope. The decisions of the major central banks and the sharp decline in crude oil prices have led to temporary asset price volatility in the international financial markets.**
In Poland, stable economic growth continues, **driven mainly by domestic demand.** ~~In 2015 Q3 GDP rose slightly faster than in the previous quarter. Consumer demand remains the main driver of economic growth,~~ **Demand growth is** supported by robust labour market, optimistic consumer sentiment and ~~increasing household lending~~ **good financial condition of enterprises**. ~~GDP growth is also driven by further, yet slower than in the previous quarter, rise in investment. Corporate investment activity is fuelled by high capacity utilization and firms' good financial performance. Yet, uncertainty about the outlook for economic conditions abroad constrains corporates' propensity to invest. Lower GDP growth in emerging economies also weakens export growth. However, as a slowdown in imports has been even stronger, the contribution of net exports to GDP growth remains positive.~~ **However, demand growth is curbed by enterprises' uncertainty about the outlook for economic growth abroad.**
~~Despite improved labour market conditions, wage growth remains moderate. This, together with the continuing negative output gap, does not produce any inflationary pressure in the economy.~~ **Due to the sustained negative output gap and only moderate wage growth in the economy there is no inflationary pressure in the economy**. The annual growth rates of consumer prices and producer prices growth remain negative, although the scale of deflation is gradually declining. Falling energy commodity prices in the global markets are the main driver behind continuing deflation. Inflation expectations are still ~~very~~ low.
In the opinion of the Council, consumer price growth will slowly increase in the nearest quarters, ~~supported by the gradual closing of the output gap amidst improving economic conditions in the euro area and the favourable domestic labour market developments~~ **yet due to renewed decline in commodity prices, consumer price growth may be lower than anticipated. So far, the continuing deflation has not had a negative impact on the decisions of economic agents. Gradual increase in price growth will be supported by closing of the output gap amidst improving economic conditions in the euro area and a tight domestic labour market.** ~~At the same time, the risk of a sharper slowdown in the emerging market economies and the impact this may have on global economic activity, as well as the possibility of commodity prices persisting at low levels, and as a result, low inflation in the environment of the Polish economy, remain the sources of uncertainty about the pace of inflation returning to the target.~~
The Council decided to keep the NBP interest rates unchanged, assessing that – given the available data and forecasts – the current level of interest rates helps to keep the Polish economy on a sustainable growth path and ensure macroeconomic balance. **A more comprehensive assessment of the outlook for price developments and economic growth in the coming quarters will be possible after the Council gets acquainted with the March projection of inflation and GDP.**

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Rates Area, Economic Analysis Department, al. Jana Pawła II 17, 00-854, Warsaw, Poland, phone +48 22 534 18 88, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.