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POST-MPC COMMENT

3 February 2016

Better to wait than to expose economy to additional risks

The Monetary Policy Council kept interest rates unchanged at its February's meeting, in line with expectations. The official MPC statement did not change much, but the Council was less optimistic about rise of CPI in the upcoming months, suggesting a bit more dovish tone. The Council also reiterated its last month's statement that a deeper analysis of Polish economic outlook will be possible in March after release of the new NBP Inflation Report. This meeting was attended by three new members (M. Chrzanowski, E. Gatnar, J. Kropiwnicki). They did not speak during the post-meeting conference, but NBP president Marek Belka said that their presence did not affect the consensus within the MPC.

Marek Belka said during the conference that he did not see increasing chances either for a cut or a hike of interest rates. According to Belka, the external environment is uncertain, so it is better to wait than to expose the Polish economy to additional risisk. However, Belka admitted that he was wrong when he forecasted that deflation will disappear soon. NBP president also said that banking tax will be included in the Inflation Report and that it may lead to lower credit action and lower investment.

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 25bp in March, after release of a new NBP's Inflation Report and then stabilization of rates at least until the year-end. Let us remind that the March's MPC meeting is scheduled after the ECB meeting, and decision to ease the euro zone's monetary policy may be an argument for a similar move in Poland.

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

In the euro area economic recovery continues, yet activity growth remains moderate. In the United States – despite slightly weaker recent data – good economic conditions prevail and GDP growth in 2016 is expected to be ~~slightly higher than in 2015~~ **be close to last year's level**. In ~~turn~~ **China, economic growth has been decelerating gradually**, **while** Russia and Brazil remain in **deep** recession~~, and the outlook for these economies has further deteriorated. In China, the data released in 2015 Q4 point to economic growth stabilization, albeit at a lower level than in the previous years~~. ~~The possibility of a further deterioration in~~ **Concerns have increased that** economic ~~conditions~~ **growth** in the emerging **market** economies **might weaken further, which is a key downside** ~~remains a significant~~ risk ~~for~~ to global economic conditions ~~growth~~. **In consequence, prices of many financial assets have declined in the global markets. This was accompanied by a weakening of emerging market currencies, including the zloty.**
~~In the recent period,~~ Prices of oil and other energy commodities **remain low** ~~in the world markets have once again sharply declined~~. ~~As a result~~ **In effect**, inflation in many economies – including ~~in~~ the euro area – ~~remains~~ **stays** close to zero. At the same time, in some **advanced** economies – including the United States – core inflation is ~~significantly~~ **markedly** higher than ~~growth in~~ headline consumer prices **growth**~~, which is driven by the ongoing economic recovery~~.
Against this background, the monetary policies ~~of the Federal Reserve~~ **in the United States** and ~~the EBC~~ **the euro area** ~~continue to~~ **are** diverging. The **ECB continues its financial asset purchases and indicates that the scale of monetary expansion might be increased in the coming months**. **At the same time** the Federal Reserve's ~~has increased its~~ **interest rates are still expected to increase** ~~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, **preliminary estimate of national accounts for 2015 suggests that GDP growth likely increased in 2015 Q4**. ~~stable economic growth continues, driven mainly by~~ Domestic demand **fuelled by stable consumption growth and rising investment, continues to be the key driver of economic growth**. ~~Demand~~ Growth is supported by ~~robust~~ **favourable** labour market **conditions**, ~~optimistic~~ **positive** consumer sentiment, ~~and good~~ **sound** financial ~~condition~~ **standing** of enterprises and **high capacity utilisation**. ~~However, demand growth is curbed by enterprises' uncertainty about the outlook for economic growth abroad.~~
~~Due to the sustained negative~~ **As the** output gap **remains negative**, and wage growth is only moderate, **currently there are** ~~in the economy there is~~ no inflationary pressure in the economy. The annual growth **in both** ~~rates of~~ consumer ~~prices~~ and producer prices remains negative. ~~, although the scale of~~ **Yet, the persistence** of deflation **results mainly from** ~~is gradually declining~~ **strong** fall **in global** energy commodity prices in ~~the global markets are the main driver behind continuing deflation~~ **in recent quarters**. Inflationary expectations are still **very** low. **However, the persisting deflation has not yet adversely affected decisions of economic agents.**
In ~~the opinion of~~ the Council's **assessment**, **CPI inflation** ~~consumer price growth~~ will **remain negative** ~~slowly increase~~ in the **coming months** ~~nearest quarters, yet~~ due to **the depressed prices of global energy commodities** ~~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.~~ **At the same time,** a gradual increase **in core inflation is expected** ~~price growth~~ **and** will be supported by **economic growth** ~~closing of the output gap amidst~~ **amid** improving economic ~~conditions~~ **activity** in the euro area and **favourable** ~~a tight domestic~~ labour market **conditions**.
The Council decided to keep the NBP interest rates unchanged, assessing that – given the available data and forecasts – the current level of interest rates **is conducive** ~~helps~~ to keeping 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.