

POST-MPC COMMENT

6 May 2016

Status quo in monetary policy

The Monetary Policy Council (MPC) decision to keep interest rates stable was no surprise at all. Also, the official post-meeting statement did not change too much. The Council expects that after surprisingly strong GDP growth recorded in Poland in 4Q15 (4.3% y/y) some slowdown should be expected in 1Q16, although it will be “probably” temporary. In the following quarters the central bank expects economic growth to be stable and solid, supported mainly by private consumption. NBP head Marek Belka said during the press conference that recent weaker than expected monthly data did not change the MPC’s views on policy outlook and did not increase their willingness to cut interest rates. Moreover, MPC member Eryk Łon, who was earlier among those suggesting that interest rate cuts cannot be ruled out if economy slows, said at the press conference he saw currently no threats that could be in favour of monetary easing. Our expectations about monetary policy outlook remain unchanged – we think that rate cuts could take place only if economic growth slows significantly or zloty appreciates heavily, which is not our base case scenario. Thus, we still believe that interest rates will remain on hold in the coming months.

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

Global economic **activity** growth remains moderate amid continuing ~~heightened~~ uncertainty about its outlook. ~~Uncertainty regards, above all, the scale of economic slowdown in the emerging economies and its translation into lower activity in the advanced economies.~~ In the euro area economic recovery continues, ~~Moderate growth is expected to continue in the coming quarters, although the slowdown~~ **weak economic conditions** in the emerging economies has a negative impact on the activity in this economy. In the United States, ~~after a slightly weaker GDP growth in the second half of 2015 economic conditions are still relatively good,~~ **economic growth slowed down in 2016 Q1, but this was accompanied by ongoing improvement in labour market conditions.** In turn, ~~economic slowdown in China continues,~~ **GDP growth continues to decelerate gradually,** while Russia and Brazil remain in recession.

Prices of oil and other commodities in the global markets – despite some increase in recent months – are still markedly lower than a year ago. Low commodity prices, combined with moderate global economic activity, are the main factor behind very low consumer price growth in many economies. In some economies – including the euro area – price growth is negative.

~~Against this background, the European Central Bank eased its monetary policy in March, lowering interest rates and increasing the scale of quantitative easing.~~ **The European Central Bank is keeping the interest rates at a very low level, including the deposit rate below zero, and continues financial asset purchases.** At the same time, the Federal Reserve – after increasing interest rates in December – is keeping rates unchanged, while indicating a possible interest rate rise in the future. ~~The decisions of the major central banks and the increase in oil prices have recently led to some improvement in global financial market sentiment and an increase in asset prices, including stock prices and exchange rates of emerging economies.~~

In Poland, ~~stable economic growth continues although the data on industrial production and construction output signal that GDP growth in 2016 Q1 might have been slightly lower than in the previous quarter.~~ Stable consumption growth and rising investment continue to support economic growth. **the revised data on national accounts indicate that GDP growth in 2015 Q4 was higher than previously estimated. In 2016 Q1, GDP growth might have slowed down slightly.** The rise in consumer demand **economic activity** is driven by steady growth in **still supported by growing** employment, improving consumer sentiment, ~~Growth in investment is supported by sound financial standing of enterprises, their high capacity utilization and the relatively favourable prospects for demand.~~ This is accompanied by stable lending growth. ~~At the same time, economic growth is hampered by weakening external demand.~~ Hence, the weakening in GDP growth in early 2016 was probably temporary, although the continuing uncertainty about economic conditions abroad is a risk factor for domestic economic activity.

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With negative output gap and moderate growth of average nominal wages, currently there is no inflationary pressure in the economy. Annual consumer price growth and producer price growth stay negative. External factors – particularly the earlier sharp fall in global commodity prices and low price growth in the environment of the Polish economy – continue to be the main sources of deflation. This is accompanied by very low inflation expectations. The persisting deflation has not adversely affected decisions of economic agents so far.

In the Council's assessment, price growth will stay negative in the coming quarters due to the earlier ~~fall~~ **substantial decline** in global commodity prices. **At the same time, GDP growth is expected to remain stable, following a temporary deceleration earlier this year. It will be accompanied by stable economic growth, including an expected rise in consumer demand growth driven by will continue to be the main driver of economic growth, supported by** rising employment, forecasted acceleration of wage growth and an increase in social benefits. This notwithstanding, the downside risks to the global economic conditions and the volatility of commodity prices remain the sources of uncertainty for the domestic economy and price developments.

The Council continues to assess that – given the available data and forecasts – the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance.

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