

POST-MPC COMMENT

9 September 2016

The MPC is not even thinking about a rate cut

As widely expected, the Monetary Policy Council kept interest rates unchanged. The statement after the meeting is similar to the previous one and the main piece reads: current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance". Additionally, according to the MPC, decline in investment was temporary (was driven by EU funds absorption, investments should accelerate at the start of 2017), there is no inflationary pressure in the economy and the persisting deflation has not adversely affected decisions taken by economic agents so far.

At the very beginning of the press conference after the meeting, the NBP Governor Adam Glapiński stated that "nothing special has happened". Well, after the conference, it is hard to disagree. Though the Governor said that GDP growth rate in 2016 is likely to be below expectations of the MPC, he said it should maintain at 3.1-3.3% (i.e. around potential growth rate) and the Council still believed that 'wait and see' was the best policy option. Asked about temptation to cut rates in order to accelerate growth, Glapiński rejected the idea and even started to talk about a scenario (though still quite distant) of policy tightening (if growth accelerates and CPI inflation increases towards 1.5%). We maintain our forecast that official rate will remain stable in 2016-17.

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

Global economic growth remains moderate, **but uncertainty remains about its outlook**. At the same time, uncertainty remains about future economic conditions in the global economy, associated additionally with the implications of the referendum on the United Kingdom's membership in the European Union. The result of the referendum has increased risk aversion in the global financial markets, which was reflected in a depreciation of currencies and a decline in asset prices in many countries. A modest recovery continues in the euro area, **economic growth is stable** despite a negative impact of weak economic conditions in developing countries **non-European emerging market economies**. The expected slowdown in growth in the United Kingdom is a risk factor for economic conditions in the euro area. In the United States economic growth remains moderate **GDP growth is lower than in previous years, but recent improvement in labour market has eased concerns about persistent deterioration in economic conditions**. However, weaker data from the labour market impedes clear assessment of future economic conditions in the US. In China the economic growth has probably decelerated further, while Russia and Brazil remain in a recession. **Recent indicators point to further slowdown in China, while in Russia recession is gradually receding**.

Despite some increase in recent months, prices of oil and many other commodities in the global markets remain markedly lower than in the previous years. This development – along with moderate global economic activity this is the main factor behind **very low** consumer price growth in many economies.

The European Central Bank keeps its interest rates close to zero, including the deposit rate below zero, and continues financial asset purchases. ~~In the United States, data from financial markets suggests a delay of further interest rate increases. At the same time, uncertainty about further decisions of the Federal Reserve has increased.~~ **The US Federal Reserve – after a hike in December 2015 – keeps the interest rates unchanged, indicating their possible increase in the future.**

In Poland, **GDP growth in 2016 Q2 picked up somewhat. The growth was driven mainly by steady increase in consumer demand, supported by gradual improvement in the labour market, favourable consumer sentiment and the launch of the "Family 500 plus" programme. Another factor contributing to higher GDP growth in 2016 Q2 was significant acceleration in exports. At the same time, GDP growth was contained by a decline in investment. It was related to a temporary lower EU funds absorption after the previous EU financial framework had expired, as well as uncertainty about the economic outlook.** incoming data shows that economic activity has accelerated after a GDP slowdown in 2016 Q1. A relatively strong increase in the wage bill and favourable consumer sentiment as well as a sound financial position of enterprises and their high capacity utilisation have a positive influence on domestic economic conditions. This is accompanied by a stable growth of credit to the non-financial sector. An increase in disposal income of households resulting from the "Family 500+" programme will contribute to GDP growth in the coming quarters. Yet, the uncertainty about economic conditions abroad, including the effects of the UK

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~~referendum, is a risk factor for domestic economic activity.~~

With negative output gap and a moderate – **though increasing** – nominal wage growth, ~~currently~~ there is no inflationary pressure in the economy. The annual consumer price growth and producer price growth remain negative. ~~External factors – particularly the earlier sharp fall in the global commodity prices and the low price growth in the environment of the Polish economy – continue to be the main sources of deflation.~~ **Negative price growth results from external factors, mainly the earlier sharp fall in global commodity prices and the low price growth in the environment of the Polish economy.** This is accompanied by low inflation expectations. **According to available information**, the persisting deflation has not adversely affected decisions taken by economic agents so far.

In the Council's opinion, the annual consumer price index will remain negative in the coming ~~months~~ **quarters** ~~due to the earlier substantial decline in the global commodity prices.~~ **However, deflation will be gradually subsiding due to dissipating effects of low commodity prices in the global markets. In the coming quarters, higher price growth will be supported by stable GDP growth, amid acceleration in wage growth and higher child benefits. Investment should also rise, which will be supported by a gradual increase in EU funds absorption, good financial standing of enterprises and growing capacity utilisation of firms. The sources of uncertainty for expected economic activity and price developments are risks of a deterioration in the global economy and of a fall in commodity prices.** ~~At the same time, GDP growth is expected to remain stable in the coming quarters, following a temporary deceleration at the beginning of the year. Consumer demand will continue to be the main driver of economic growth, supported by rising employment, the forecasted acceleration of wage growth and an increase in social benefits. This notwithstanding, the downside risks to the global economic conditions, aggravated by the uncertainty about the effects of the UK's EU referendum, and the volatility of commodity prices, remain the sources of uncertainty for the economy and the price developments.~~

The Council confirms its assessment 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.