

# POST-MPC COMMENT

9 November 2016

## MPC still sees no reason to change policy

As expected, the Monetary Policy Council left monetary policy in Poland unchanged, with the main reference rate still at 1.5%.

The new NBP projection assumes the inflation path that is very similar to the one predicted in July (mounting very slowly and remaining below 2.5% target in the next two years), and GDP growth slightly lower in 2016 but slightly higher than predicted in July in the next two years.

While in July the MPC has clearly distanced itself from the NBP projection, saying it expected a more optimistic economic outlook, it was not the case this time. The NBP governor Adam Glapiński said at the press conference that different Council members may have different opinions, but he remained optimistic as regards economic growth outlook. In his opinion a slowdown of GDP growth observed currently was entirely caused by slower absorption of EU funds and thus it should be transitory. Glapiński believes that the use of EU funds should improve significantly quite soon, and as a result the pace of economic growth will accelerate significantly at the start of 2017. He also reiterated that he believes there would be no reason to change interest rates in 2017, unless GDP growth and inflation accelerate sharply (GDP growth at 3.6% and inflation at 1.5% would be no reason to hike rates, in his view). Other MPC members present at the press conference – Jerzy Żyżyński and Eryk Łon (considered as relatively dovish) – confirmed that interest rates are currently at optimal level, as GDP growth is decent and inflation trending up. They also suggested that even in case of economic slowdown rate cuts would be ineffective in boosting GDP growth.

Summing up, it seems that there are no significant changes in the Polish MPC's stance at this stage. Even if 3Q GDP data shows growth slightly below 3%, it will be probably not enough to change the Council's policy bias, unless there is much more evidence that it may be a more persistent slowdown.

### Inflation and GDP projections

	GDP growth				CPI inflation			
	Nov 15	Mar 16	Jul 16	Nov 16	Nov 15	Mar 16	Jul 16	Nov 16
<b>2015</b>	2.9÷3.9	-	-	-	-0.9÷-0.8	-	-	-
<b>2016</b>	2.3÷4.3	3.0÷4.5	2.6÷3.8	2.3÷3.4	0.4÷1.8	-0.9÷0.2	-0.9÷-0.3	-0.7 ÷ -0.6
<b>2017</b>	2.4÷4.6	2.6÷4.8	2.4÷4.5	2.6÷4.5	0.4÷2.5	0.2÷2.3	0.3÷2.2	0.5÷2.0
<b>2018</b>	-	2.1÷4.4	2.1÷4.3	2.2÷4.4	-	0.4÷2.8	0.3÷2.6	0.3÷2.6

According to the NBP projections, the GDP and CPI growth will fall to within the ranges given above with probability of 50%.

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

Global economic growth remains moderate with uncertainty about its outlook. In the euro area, despite negative impact of weak economic conditions in the non-European emerging markets on exports, economic growth is stable, **as indicated by national accounts data for 2016 Q3**. In the United States, ~~incoming data point to some acceleration in GDP growth in 2016 Q3, which is accompanied by further improvement in the labour market.~~ **GDP growth picked up in 2016 Q3 following several quarters of deceleration**. In China, economic growth has stabilized at a lower level than in previous years. Meanwhile, in Russia recession is gradually receding.

~~Global commodity prices – despite a rise since the beginning of the year – are lower than in previous years. Low level of commodity prices, along with moderate global economic activity, has been the main factor behind low consumer price growth in many economies.~~ **Amid moderate global economic growth and lower commodity prices than in previous years, price growth in the environment of the Polish economy is still very low. However, annual price growth in commodity prices has been positive, leading to slightly higher inflation in some economies.**

The European Central Bank has kept its interest rates close to zero, including the deposit rate below zero, and has continued financial asset purchases. The Federal Reserve – after a hike in December 2015 – has kept the interest rates unchanged, potining to their possible increase in the future.

In Poland, stable economic growth has continued, **although** current data indicate that in 2016 Q3 ~~was probably close to that observed in the previous quarter~~ **it may have fallen slightly**. The main driver of growth is rising consumer demand, which is supported by the gradual improvement in the labour market, favourable household sentiment and the child benefit payments under the "Family 500 plus" programme. Data on construction and assembly output indicate that declining investment is still containing economic activity. The decrease in investment is related to temporarily lower absorption of EU funds after expiration of the previous EU financial framework, as well as **continued** uncertainty ~~in the enterprise sector~~ **about the regulatory environment of business.**

Annual growth in prices of consumer goods and services has remained negative, yet deflation is gradually subsiding. Descending deflationary trends are also ~~visible~~ **reflected by a growth** in producer prices ~~developments~~. The increase in price growth results from dissipating effects of the earlier sharp fall in global commodity prices, and also the ~~gradual acceleration in~~ **higher** wage growth in Poland **compared to previous quarters**.. Price growth is contained by low inflation abroad and negative output gap in the domestic economy. At the same time, inflation expectations remain low.

**The Council became acquainted with the projection of inflation and GDP prepared by the Economic Institute. In line with the November projection based on the NECMOD model – prepared under the assumption of unchanged NBP interest rates and taking into account data available until 21 October 2016 – there is a 50-percent probability that the annual price growth will be in the range of -0.7 ÷ -0.6% in 2016 (against -0.9 ÷ -0.3% in the July 2016 projection), 0.5 ÷ 2.0% in 2017 (compared to 0.3 ÷ 2.2%) and 0.3 ÷ 2.6% in 2018 (compared to 0.3 ÷ 2.6%). The annual GDP growth – according to this projection – will be with a 50-percent probability in the range of 2.5 ÷ 3.4% in 2016 (against 2.6 ÷ 3.8% in the July 2016 projection), 2.6 ÷ 4.5% in 2017 (compared to 2.4 ÷ 4.5%) and 2.2 ÷ 4.4% in 2018 (compared to 2.1 ÷ 4.3%).**

In the Council's opinion, ~~the scale of deflation will continue to decrease in the coming months.~~ **price growth will continue to gradually increase and in the coming quarters it will turn positive**. Besides waned effects of the earlier falls in commodity prices, price growth in 2017 will be driven by an expected acceleration in GDP growth amid a further rise in wage growth and higher child benefits. In the coming quarters, the investment growth rate should also rise, supported by the good financial standing of enterprises and their high capacity utilisation, as well as the gradual increase in the absorption of EU funds. **Such an assessment is supported by NBP November projection**. The source of uncertainty for expected ~~economic activity and price developments~~ is the risk of a ~~deterioration in global economy and a fall in commodity prices~~.

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.

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