Bank Zachodni WBK
Grupa Santander

POST-MPC COMMENT

11 January 2017

Absolutely no room for rate hikes in 2017

As expected, the Monetary Policy Council kept interest rates on hold in January, with the main reference rate at 1.5%.

The official communique has not changed significantly as compared to the previous month. The Council still sees the slowdown of economic growth in Poland as temporary. It also expects inflation to rise further, but only gradually and moderately. The central bank governor Adam Glapiński said that inflation will probably touch the lower end of the allowed fluctuations band around the target (i.e. 1.5%) this year, but the 2.5% target will not be reached in 2017. Moreover, he emphasized that he saw "absolutely no reasons to start mulling interest rate hikes". Glapiński said that if economic growth accelerates and triggers stronger inflation rise, then a time for discussion about interest rate hikes will come – it may take place in 2018, but only in a positive scenario, which does not have to materialize. Meanwhile, the central bank head sees very limited room for inflation rise in the coming months, as the upward trend in crude oil price has stalled, and the economic growth in Europe is still meagre. He also suggested that higher CPI due to fuel price hike should not be a reason for central bank action, as long as there is no broad-based underlying price pressure. Summing up, the message from the central bank was neutral or even mildly dovish – they do not see reasons to change monetary policy this year and policy tightening in 2018 would be possible only when inflation picks up clearly due to growth acceleration.

Glapiński mentioned also that the working group of the Financial Stability Committee is now completing a work on new regulatory measures for commercial banks that would push them towards voluntary conversion of CHF loans into zlotys. The work should be concluded in 1Q17.

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

~~Global~~ Economic growth **abroad** remains moderate, with ~~uncertainty about its outlook~~ **signs of recovery in global industry**. In the euro area, economic growth has been stable, ~~yet in 2016 Q3 it eased in several~~ **albeit diverse across its** member states. ~~, including~~ In Germany, **economic growth in 2016 Q4 probably accelerated, while in other large euro area economies it remained low**. ~~GDP growth has decelerated also in the Central and Eastern European economies~~. In the United States, ~~economic conditions have been favourable~~ **expansion has continued, supported by improvement in the labour market reflected both in rising employment and wages**. ~~while~~ In China, **there are signs of improvement in economic conditions,** yet ~~economic~~ **GDP** growth ~~has been~~ **is still** lower than in previous years. ~~In Russia, recession has been receding.~~
~~Amid moderate global economic growth and lower~~ **Prices of energy** commodities, **including oil, have risen over recent months.** ~~than in previous years, price growth in the environment of the Polish economy has still been very low, albeit increasing~~. **In consequence, inflation has picked up in many economies, including in the euro area**.
The European Central Bank has been keeping the interest rates close to zero, including the deposit rate below zero.~~, and has~~ **The ECB is also** continuing its ~~financial~~ asset purchase programme. The Federal Reserve ~~indicates a likely~~ **rise in the interest rates in December** ~~the near future~~ **and indicated their further rise in 2017**. ~~As a result of the prospective monetary policy tightening in the United States, the US dollar has appreciated and bond yields have risen in many countries. In addition, the emerging market currencies, including the zloty, have depreciated.~~
In Poland, GDP growth ~~decelerated~~ in 2016 **Q~~3~~4 was probably subdued.** ~~and remained subdued also in the current quarter as~~ **However, monthly data** signal~~led by recent~~ **some improvement in** economic ~~data~~ **activity over the recent past**. ~~The slowdown has been caused~~ **Economic growth** has been mainly **driven** by ~~a fall~~ **increasing consumer demand, supported by a rise in employment and wages, very good consumer sentiment and child benefit payments. At the same time GDP growth was contained by a fall** in investment, **caused to a large extent by** ~~related to~~ temporarily lower ~~absorption~~ **use** of EU funds after

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

~~expiration of~~ **the completion of** the previous EU financial **perspective**. ~~framework. Investment has been additionally contained by uncertainty among enterprises. Lower GDP growth in 2016 Q3 resulted also from weaker increase in exports compared to the previous quarter, most probably stemming from slower economic growth in the major trading partners. Poland's economic growth has been supported, in turn, by increasingly faster rise in consumer demand amid ongoing improvement in the labour market, favourable household sentiment and the child benefit payments under the "Family 500 plus" programme.~~
Annual growth in prices of consumer goods and services has been ~~gradually rising~~ **increasing** – in ~~November it was 0%~~ **line with flash estimate it was 0.8% y/y in December 2016**. ~~Also~~ Growth in producer price has ~~been accelerating at a moderate pace~~ **also picked up**. The increase in price growth has resulted mainly from ~~the dissipating effects of the earlier sharp fall in global~~ **energy** commodity prices **being higher than a year ago, i.e. factors beyond the direct impact of domestic monetary policy. At the same time**, price growth has been contained by low **inflationary pressure** abroad, negative output gap in the domestic economy ~~and low inflation expectations~~.
In the Council's opinion, price growth will continue to ~~gradually~~ increase **in the coming months, yet it will remain moderate**. Besides ~~waned effects of the earlier falls in~~ commodity prices **being higher than a year ago**, price growth will be ~~driven~~ **supported** by an expected acceleration in ~~GDP~~ **economic** growth **amid** a gradual increase in ~~following its temporary easing in 2016. GDP growth will be supported by faster rise in consumer demand. In addition,~~ the investment growth rate ~~should pick up in 2017, supported by good financial standing of enterprises and their high capacity utilisation, as well as a gradual increase in the absorption of EU funds~~ **a stable rise in consumption**.
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.

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.