Bank Zachodni WBK
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POST-MPC COMMENT

8 February 2017

MPC ready for ‘temporarily’ negative real rates

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

The tone of the MPC’s official communique seems to have softened again. The Council stated that the inflation rate, after rising in the first months of this year, should ‘stabilize’ in the following quarters. Moreover, it added that factors fueling inflation rise (mainly commodity prices) are of temporary nature, while the underlying pressure is non-existent. The MPC wrote that the risk of breaching the inflation target ‘persistently’ in the medium term is very low. It does not mean, in our view, that the central bank expects inflation to top 2.5% in the near term. The NBP Governor Adam Glapiński repeated many times during the press conference that interest rates in Poland may turn negative in real terms, but it is not so certain, and even if they do, then only for a while, as inflation should ease later during the year. Glapiński said also that the MPC still agrees that the best strategy is to maintain a ‘wait-and-see’ approach, and there were no discussions in the Council about the timing of interest rate hikes. In his personal view, interest rates should remain unchanged until the end of this year.

The February’s MPC statement and the press conference confirmed once again that the Council wants to maintain the status quo in monetary policy throughout 2017, as they see the inflation pickup as moderate and short-lived. We think that CPI will jump to 2% in March/April and will stabilize near this level for the better part of the year, which is probably above the inflation path anticipated currently by the central bank. Such situation may cause that the MPC may become less unanimous about the monetary policy outlook. Kamil Zubelewicz, one of the most hawkish MPC members, said today that for him the changes in inflation forecasts will be key for next decisions. However, we believe that the majority of Council members will not hurry with monetary tightening, similarly as they did not hurry with easing when the GDP growth was slowing. Especially that core inflation should remain much lower than the headline rate. Moreover, the NBP Governor will probably keep trying to tame expectations for rate hikes, as he did during the last two meetings (with some success, as FRA rates fell after today’s press conference by up to 7bps).

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

Economic growth abroad remains moderate, ~~with signs of recovery in global industry~~ **but forecasts for the global economy have recently been revised up**. In the euro area, **a gradual recovery continues** ~~economic growth has been stable~~**, amid stronger industrial confidence** ~~albeit diverse across its member states~~. ~~In Germany, economic growth in 2016 Q4 probably accelerated, while in other large euro area economies it remained low.~~ In the United States, ~~expansion has continued,~~ **economic conditions are** supported by improving labour market, reflected both in rising employment and wages. In China, ~~there are signs of improvement in economic conditions, yet~~ GDP growth ~~is still lower than in previous years~~ **slightly picked up in 2016 Q4, following a few years of slowdown. In Russia, recession is gradually receding.**
Global commodity prices ~~including oil, have risen over recent months~~ **are significantly higher than a year ago, which results in rising inflation in many economies**. ~~In consequence~~ **However**, ~~inflation has picked up~~ **in many of them** ~~economies~~, including in the euro area, **demand pressure is still low, containing the rise in inflation and keeping the core inflation rates at a moderate level**.
The European Central Bank ~~has been~~ **keeps**~~ing~~ interest rates close to zero, including the deposit rate below zero. The ECB also continues its asset purchase programme. The Federal Reserve ~~raised the interest rates in December 2016 and~~ indicates ~~their~~ further rise in interest rates in 2017.

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In Poland, **preliminary data on GDP in 2016 indicate** that in 2016 Q4 **the annual economic growth rate was close to that recorded a quarter earlier** ~~was probably subdued~~. ~~However, monthly data signal some improvement in economic activity over the recent past.~~ Economic growth ~~has been~~ **was** mainly driven by increasing consumer demand, supported by a rise in employment and wages, very good consumer sentiment and child benefit payments. **Net exports and rise in inventories also added to GDP growth.** At the same time, ~~GDP growth was contained by a~~ fall in investment **narrowed**. **Lower pace of investment decline probably resulted from** ~~caused to a large extent by temporarily lower~~ **higher** use of EU funds ~~after the completion of the previous EU financial perspective~~ **under the new EU financial perspective**.
In recent months, like in many countries, annual growth in prices of consumer goods and services ~~has been increasing~~ **picked up**. ~~in line with flash estimate it was 0.8% y/y in December 2016.~~ ~~Growth in producer prices has also picked up.~~ The ~~increase in~~ price growth ~~has~~ results ~~mainly~~ from ~~energy~~ **higher global** 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 is ~~abroad~~ **contained by moderate growth in unit labour costs** and the negative output gap in the domestic economy.
In the Council's opinion, **following a rise in inflation in the first months of the year,** price growth will ~~continue to increase~~ stabilize in the coming ~~months~~ **quarters**~~, yet it will remain moderate~~. **Annual inflation will be increased owing to the effects of higher global** ~~Besides~~ commodity prices ~~being higher than a year ago.~~ **Bearing in mind the external and most probably temporary nature of factors behind the increase in price growth as well as low domestic demand pressure the Council judges that the risk of inflation persistently running above the target in the medium term is low**. ~~price growth will be supported by an expected acceleration in economic growth amid a gradual increase in the investment growth rate and 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.