Bank Zachodni WBK
Grupa Santander

POST-MPC COMMENT

8 February 2017

The central bank is not going to hurry with rate hikes

As expected, the Monetary Policy Council kept interest rates unchanged. The reference rate remains at 1.5%.

The tone of the MPC's official communique has not changed much and remained dovish, in line with our expectations, even though the new central bank projection showed inflation path higher than its previous (November's) version. The mid-point of the CPI projection went up by 0.8pp in 2017 (to slightly above 2%) and by 0.5pp in 2018 (to 1.9%); the mid-point for 2019 is 2.4%. Thus, the new projection has challenged the Council's earlier view that inflation will go back below 1.5% relatively soon. On the other hand, the projection showed that in 2018 CPI is likely to stabilize instead of trending up further, and that reaching the 2.5% inflation target is still quite distant.

The MPC members present at the press conference (Hardt, Gatnar) said they were not worried that the period of negative real interest rates will be longer than earlier expected. The NBP Governor Adam Glapiński repeated several times his earlier pledge that he saw no reasons to change interest rates until the end of this year. Moreover, he even added that if situation evolves in line with the current NBP's projection, he would see no reason to tighten monetary policy also in 2018. In general, we think that both the official communique and the comments presented during the press conference have clearly confirmed that the Polish central bank is not going to hurry with the monetary policy tightening, unless we see a really dramatic change in the inflation environment. We think that the first interest rate hike should not take place earlier than in late 2018, especially if inflation rate stabilizes in 2018 (which is in line with the current NBP's forecast and our predictions). It does not mean that there will be no earlier discussion about policy tightening, however we believe that the majority of the MPC members will not want to press too early on the brake as they would love to see relatively fast economic growth.

The new *Inflation Report* with the details of the new NBP projection will be released on Monday, March 10.

Inflation and GDP projections

	GDP growth				CPI inflation			
	Mar 16	Jul 16	Nov 16	Mar 17	Mar 16	Jul 16	Nov 16	Mar 17
2016	3.0÷4.5	2.6÷3.8	2.3÷3.4	-	-0.9÷0.2	-0.9÷-0.3	-0.7 ÷ -0.6	-
2017	2.6÷4.8	2.4÷4.5	2.6÷4.5	3.4÷4.0	0.2÷2.3	0.3÷2.2	0.5÷2.0	1.6÷2.5
2018	2.1÷4.4	2.1÷4.3	2.2÷4.4	2.4÷4.5	0.4÷2.8	0.3÷2.6	0.3÷2.6	0.9÷2.9
2019	-	-	-	2.3÷4.4	-	-	-	1.2÷3.5

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

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

Global economic growth ~~abroad~~ remains moderate, ~~but forecasts for the global economy have recently been revised up~~ **with signs of economic recovery strengthening in many economies**. In the euro area, ~~a gradual recovery continues~~ **economic growth is stable**, ~~amid stronger~~ **accompanied by favourable sentiment in** industrial ~~confidence~~. In the United States, economic conditions are supported by improving labour market, reflected both in rising employment and wages. In China, GDP growth picked up slightly in Q4 2016~~, following a few years of slowdown,~~ while ~~In~~ Russia ~~recession is gradually receding~~ **has probably recovered from recession**.

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~~Global commodity prices are significantly higher than a year ago, which results in rising~~ **Over past few months** inflation **has risen considerably** in many ~~economies~~ **countries, mainly on the back of an increase in global commodity prices, which has recently come to a halt**. **At the same time** ~~However~~, ~~in many of them,~~ **low demand pressure in many economies**, including the euro area, contains the rise in inflation and keeps core inflation at a moderate level.
The European Central Bank keeps interest rates close to zero, including the deposit rate below zero. The ECB also continues its asset purchase programme. The Federal Reserve indicates a further rise in interest rates this year.
In Poland, ~~preliminary data on GDP in 2016 indicate that~~ **economic growth** in 2016 Q4 ~~the annual economic growth rate~~ was ~~close to that recorded~~ **slightly higher** than a quarter earlier. Economic growth was mainly driven by increasing consumer demand, supported by a rise in employment and wages, very good consumer sentiment and child benefit payments. At the same time, fall in investment narrowed ~~Lower pace of investment decline probably resulted from~~ due to higher ~~use~~ **absorption** of EU funds ~~under the new EU financial perspective.Net exports and rise in inventories also added to GDP growth~~. **Recent economic data, including industrial output, retail sales and labour market point to ongoing recovery.**
~~In recent months, like in many countries~~ The annual growth in prices of consumer goods and services **in Poland** picked up **considerably over recent months, mainly due to** ~~. The price growth results from~~ higher global commodity prices, i.e. factors beyond the direct impact of domestic monetary policy. **Core inflation remains close to zero, which points to still low demand pressure.** ~~At the same time, inflationary pressure is contained by moderate~~ **Despite growing employment and wages,** growth in unit labour costs ~~and the negative output gap in the domestic economy~~ remains moderate.
In the Council's opinion, following a **considerable** rise in the first months of the year, inflation ~~, price growth~~ will stabilize ~~in the coming quarters~~ **at a moderate level**. ~~Annual inflation will be increased owing to the effects of higher~~ **The stabilisation of price growth in the coming quarters will result on the one hand from fading effects of the past increase in** global commodity prices and **on the other hand from only a gradual increase in domestic inflationary pressure stemming from improving domestic economic conditions.** ~~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~~ **In consequence**, the risk of inflation running persistently above the target in the medium term is ~~low~~ **limited**.
Such an assessment is supported by the results of the March projection of inflation and GDP prepared by the Economic Institute under the assumption of unchanged NBP interest rates. In line with the March projection based on the NECMOD model – taking into account data available until 20 February 2017 – there is a 50-percent probability that the annual price growth will be in the range of 1.6 – 2.5 % in 2017 (against 0.5 – 2.0% in the November projection), 0.9 – 2.9% in 2018 (as compared to 0.3 – 2.6%) and 1.2 – 3.5% in 2019. The annual GDP growth – according to this projection – will be with a 50-percent probability in the range of 3.4 – 4.0% in 2017 (against 2.6 – 4.5 % in the November projection), 2.4 – 4.5% in 2018 (as compared to 2.2 – 4.4%) and 2.3 – 4.4% in 2019.
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. **The Council adopted *Inflation Report – March 2017*.**

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