

# POST-MPC COMMENT

7 June 2017

## The 'wait and see' rhetoric continues

The Monetary Policy Council kept the interest rates on hold in June. The reference rate is still at 1.5%. The tone of the statement was the same as in May, suggesting that there is still no need for the Council to change monetary policy parameters in the foreseeable future. NBP Governor Adam Glapiński reiterated that he would be surprised if the Council raised rates before the end of 2018.

Referring to the stronger-than-expected GDP growth in 1Q NBP Governor Adam Glapiński expressed his disappointment about weak investment, and expectations of a jump in this category on the back of EU financing next quarters (he did not mention non-EU-linked corporate investments). Eryk Łon and Łukasz Hardt, also present on the press conference, did not challenge his personal forecast that the economy can grow 4% this year with some positive bias. His colleagues did however thought investments could only rise in late 2017 (Łon) and that GDP could for sure reach 3.8% (Hardt). Anyway, we got a yet-another impression the pace of economic growth is not the factor that could change the Council's attitude.

Surprisingly little attention has been paid to inflation itself. What was covered during the press conference was the negative real interest rate issue (when subtracting inflation from the current reference rate) but has not been highlighted as a reason to consider rate adjustment. Hardt, named by Glapiński as the member most engaged in search for unwanted consequences of negative rates, expressed a wish that this situation is corrected 'in some finite time horizon'. But that is not much from the member seen as the one expected to start a discussion on monetary tightening when the right time comes. Hardt stated also that for him personally core inflation at the end of 2018 presented in the projections will be an important check (the next one will be released in July) as he sees that this measure is gradually but consequently rising. If by that time real rates stay negative this would rise the chance he tries to build a majority for a rate hike.

Glapiński mentioned that the debate today was actually quite heated if there are already signals that something was changing in the economy that would require action from the MPC. That said, we still cannot call this MPC meeting and press conference anything else than a non-event from the point of view of interest rate expectations. We still see the first rate hike coming in 2H2018.

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

Signs of improvement in the global economy are strengthening, particularly in industry and international trade. In the euro area, data indicate ongoing recovery. In the United States, GDP growth declined in 2017 Q1, yet due to temporary factors. In China, ~~economic growth was higher than in the previous quarter~~ **after a rise in GDP growth in 2017 Q1**, yet current data do not indicate a sustained acceleration in economic activity.

~~In many countries, the annual inflation rates are markedly higher than in 2016, reflecting mainly an earlier increase in commodity prices. However, energy commodity prices, mostly oil, have fallen recently.~~ **Despite ongoing global recovery, inflation abroad has stabilised at a moderate level, on the back of fading effects of an earlier increase in commodity prices, including oil prices, alongside low domestic inflationary pressure in many countries.**

The European Central Bank keeps interest rates close to zero, including the deposit rate below zero. The ECB also continues its asset purchase programme. ~~At the same time, the Federal Reserve indicates further monetary policy tightening.~~ **The US Federal Reserve gradually tightens its monetary policy, signalling further increases in interest rates. In Pol**

~~In Poland, incoming data point to a pick-up in GDP growth in 2017 Q1.~~ **GDP data indicate that economic growth accelerated in 2017 Q1.** Growth was still driven primarily by increasing consumer demand, supported by rising employment and wages, **very** good consumer sentiment and disbursement of benefits. **This was accompanied by near-**

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zero investment growth rate. At the same time, exports and imports continued to rise at a strong pace. Leading economic indicators as well as output and sales data, despite slight weakening in the recent period, point to stable economic growth in 2017 Q2. This is accompanied by improving conditions in industry and construction, which may point to a gradual recovery in investment demand.

The annual growth in prices of consumer goods and services, following a significant rise at the beginning of the year, has stabilised **remains** at a moderate level, while core inflation, though gradually increasing, is still low, which points to still limited demand pressure. Despite growing employment and wages, growth in unit labour costs remains moderate.

In the Council's opinion, in the following quarters inflation will remain moderate amid fading effects of the past increase in global commodity prices, with only a gradual rise in domestic inflationary pressure stemming from improving domestic economic conditions. In consequence, the risk of inflation running persistently above the target in the medium term is limited.

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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