Bank Zachodni WBK
Grupa Santander

# POST-MPC COMMENT

5 July 2017

## Smells like stability

**The Monetary Policy Council kept the main interest rates unchanged, as expected. The new projection of the central bank showed higher than previously GDP growth in 2017 and its slowdown in the two following years towards the previously expected path. Meanwhile, inflation projection for 2017 has been lowered slightly, while in the next two years is similar as predicted in March. The tone of the MPC statement remained dovish, as we anticipated. Moreover, the NBP Governor Adam Glapiński strongly reiterated that he sees "extremely high probability" that interest rates would remain unchanged not only in 2017 but also in 2018 and that Poland "smells of stability". Nevertheless, Glapiński admitted that the internal discussions about monetary tightening in the Monetary Policy Council may start in mid-2018. The comments of two other central bankers present at the MPC press conference signaled indeed that the divergence of views among the MPC members is already slowly rising. Kamil Zubelewicz said that while the new projection shows inflation below the 2.5% target until very late 2019, it does not mean that interest rate hikes would not be needed. In his view, it may be better to start tightening sooner, as otherwise stronger reaction may be necessary. Eugeniusz Gatnar said he was concerned a bit that the real interest rates in Poland may remain negative for more than two years, as it may generate undesired results (like a drop in households' deposits). He also seemed concerned about the labour market situation. However, according to Glapiński there were no reasons to worry about the labour market, as the reduction of the retirement age should be offset by a rise in labour activity, while the inflow of employees from Ukraine should continue.**

**In sum, our expectations regarding the monetary policy outlook in Poland remain unchanged. We have suggested in the past that the divergence of views in the rate-setting panel would be growing, but the majority of the Council members should continue supporting the view presented by the NBP Governor Adam Glapiński. As a result, it seems very likely that the main interest rates in Poland will remain unchanged until the very late 2018.**

**Inflation and GDP projections**

| | GDP growth | | | | CPI inflation | | | |
|---|---|---|---|---|---|---|---|---|
| | Jul 16 | Nov 16 | Mar 17 | Jul 17 | Jul 16 | Nov 16 | Mar 17 | Jul 17 |
| **2016** | 2.6÷3.8 | 2.3÷3.4 | - | - | -0.9 ÷ -0.3 | -0.7 ÷ -0.6 | - | - |
| **2017** | 2.4÷4.5 | 2.6÷4.5 | 3.4÷4.0 | 3.4÷4.7 | 0.3÷2.2 | 0.5÷2.0 | 1.6÷2.5 | 1.6÷2.3 |
| **2018** | 2.1÷4.3 | 2.2÷4.4 | 2.4÷4.5 | 2.5÷4.5 | 0.3÷2.6 | 0.3÷2.6 | 0.9÷2.9 | 1.1÷2.9 |
| **2019** | - | - | 2.3÷4.4 | 2.3÷4.3 | - | - | 1.2÷3.5 | 1.3÷3.6 |

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 June statement)**

| |
|---|
| Signs of improvement in the global economy are strengthening, ~~particularly in industry and international trade~~. In the euro area, data indicate ongoing recovery **driven by rising consumption and investment**. In the United States, ~~economic growth declined in 2017 Q1 yet due to temporary factors~~ **after a temporary decline, GDP growth probably picked up in 2017 Q2.** In China, after a rise in GDP growth in 2017 Q1, current data ~~do not indicate a sustained acceleration in economic activity~~ **point to a deceleration of economic growth in 2017 Q2**. |
| Despite ongoing global recovery, inflation abroad ~~has stabilised at a moderate level~~ **remains moderate**, on the back of fading effects of an earlier increase in commodity prices **and stable oil 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. The US Federal Reserve gradually tightens its monetary policy, ~~signalling further increases~~ **by raising** in interest rates. |
| In Poland, ~~GDP data indicate that economic growth accelerated in 2017 Q1. Leading economic indicators as well as output and sales data, despite slight weakening in the recent period, point to~~ **monthly data on economic activity indicate** stable GDP growth in 2017 Q2. Growth ~~was~~ **is** still driven primarily by increasing consumer demand, supported by rising employment and wages, very good consumer sentiment and disbursement of benefits. At the same time, ~~exports and imports continued to rise at a strong pace~~ **data on industrial production and construction output, as well as leading economic indicators, suggest a continuation of favourable trends in the corporate sector. Together with the expected increase in the absorption of EU funds, this should support recovery in investment in the coming quarters.** ~~This was accompanied by near-zero investment growth rate.~~ |
| The annual growth in prices of consumer goods and services remains at a moderate level, while core inflation, though gradually increasing, is still low. Growth in unit labour costs also 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. |
| **Such an assessment is supported by the results of the July projection of inflation and GDP, prepared by the Economic Analysis Department under the assumption of unchanged NBP interest rates. In line with the July projection based on the NECMOD model, there is a 50-percent probability that the annual price growth will be in the range 2/2 of 1.6 – 2.3% in 2017 (against 1.6 – 2.5% in the March 2017 projection), 1.1 – 2.9% in 2018 (compared to 0.9 – 2.9%) and 1.3 – 3.6% in 2019 (compared to 1.2 – 3.5%). The annual GDP growth – according to this projection – will be with a 50-percent probability in the range of 3.4 – 4.7% in 2017 (against 3.4 – 4.0% in the March 2017 projection), 2.5 – 4.5% in 2018 (compared to 2.4 – 4.5%) and 2.3 – 4.3% in 2019 (compared to 2.3 – 4.4%).** |
| 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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