POST-MPC COMMENT

6 September 2017

Still no reason to discuss interest rate hikes

The Monetary Policy Council kept the main interest rates unchanged at 1.5% in September, as expected. The post-meeting statement was very concise, signalling no changes in monetary policy bias. The NBP Governor Adam Glapiński repeated at the press conference his claim that there is absolutely no reason to discuss interest rate hikes, as the economic growth is well balanced and inflation remains low. In his view, the main interest rates could remain on hold until the very late 2018, although he did not rule out that a discussion about monetary tightening may intensify in mid-2018. He also downplayed the risks from the reported labour shortage and said that it could theoretically be an obstacle for economic growth in future, but currently it is not an issue. NBP Governor and MPC member Jerzy Kropiwnicki emphasised that rising labour participation is easing labour market tensions, helping to keep wage growth in check. Interestingly, even Jerzy Osiatyński, who in July's interview has raised his concerns about possible acceleration of unit labour costs, also did not seem to be very much worried about the tightening labour market and said that the only think that is troubling is the delayed recovery of private investments.

Summing up, there is nothing new as regards the monetary policy outlook in Poland. Even though there was some divergence of views between the MPC members in recent weeks, the clear majority of the Council still supports maintaining the status quo as long as possible. We keep the view that the NBP interest rates will remain unchanged at least until the last quarter of 2018.

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

Signs of improvement in the global economy are strengthening. In the euro area, **GDP growth rate accelerated in 2017 Q2, and incoming data indicate continued favourable sentiment in this economy** ~~data indicate an ongoing recovery driven by rising consumption and investment~~. In the United States, ~~after a temporary decline~~, GDP growth ~~probably~~ picked up in 2017 Q2, **and monthly indicators point to a continuation of strong economic conditions there**. In turn, ~~in China current data point to a deceleration of~~ **China's** GDP growth **stabilised** in 2017 Q2.
Despite ongoing global recovery, inflation abroad remains moderate, on the back of **persistently low** domestic inflationary pressure in many countries, alongside ~~the fading effects of an earlier increase in commodity prices and stable oil prices~~ **relatively stable global commodity prices**.
The European Central Bank keeps interest rates close to zero, including the deposit rate below zero, and continues its asset purchase programme. The US Federal Reserve gradually tightens its monetary policy ~~by raising interest rates~~.
In Poland, incoming data ~~indicate stable GDP growth in 2017 Q2~~ **confirm continued stable growth in economic activity**. **GDP growth rate in 2017 Q2 was close to that observed in the previous quarter**. Growth **was** ~~is~~ still driven primarily by increasing consumer demand, supported by rising employment and wages, disbursement of benefits and very good consumer sentiment. ~~At the same time, 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~~. **Investment growth rate was however still weak. At the same time, export growth slowed down, and as a result, the contribution of net exports to GDP growth turned negative.**
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~~. **Wage growth in the economy has picked up**.
In the Council's opinion, in the following quarters inflation will remain moderate ~~amid fading effects of the past increase in global commodity prices~~, **alongside a decline in import price growth due to the expected stabilisation of energy commodity prices and low inflationary pressure abroad. This will result from** ~~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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