Bank Zachodni WBK
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POST-MPC COMMENT

5 December 2017

MPC immune to strong data

The Monetary Policy Council kept the main interest rates unchanged, with the reference rate at 1.5%. The MPC also decided to reduce interest on the mandatory reserve to 0.5% (from 1.35%), with the effect since 1 January 2018.

The latter decision will increase the NBP profit (at the expense of commercial banks' profits) by around PLN350m per year, according to our estimates. It is the second month in a row when the central bank adjusts its reserve requirement policy – in November they have cut the required reserve ratio on funds with maturity of at least two-years to 0% (from current 3.5%) – effective since March 2018. The NBP president explained at the press conference that the decision was of a technical nature and – together with the last month's tweak to reserve ratio – is aimed at supporting growth of long-term deposits (with maturity >2Y). We think that those moves do not change the overall course of monetary policy.

The official MPC communique was relatively soft. The Council acknowledged that inflation's rise to 2.5% in November was fuelled mainly by prices of food and energy, while core inflation remained low. They also wrote that wage growth in total economy remained stable in 3Q and unit labour costs even decelerated despite higher wages in corporate sector. The MPC maintained its assessment that current level of interest rates supports maintain well-balanced economic growth and macroeconomic stability.

The post-meeting press conference was even softer. Adam Glapiński repeated his claim that interest rates should remain on hold until the end of 2018. In his view the recent data did not challenge this opinion, but even confirmed it – the wage pressure is not rising but even (in his view) decreasing, core inflation remains low, growth of unit labour costs decelerated. Moreover, the central bank estimated that investment growth excluding energy sector rose 6.9% y/y in 3Q17, which they see as a satisfactory result. Glapiński was accompanied by Eryk Łon (extremely dovish) and Rafał Sura (moderately dovish), and both MPC members confirmed his assessment that there is absolutely no need for monetary policy adjustment.

Summing up, the official statement and the press conference confirmed that the president Adam Glapiński still firmly controls the majority in the rate-setting panel, with no desire to change the monetary policy stance in the foreseeable future. However, we suspect that the recent strong data releases could have deepened the divisions in the MPC. The announcement of decision today (13:55) was unusually late (latest since March 2015, when the MPC cut rates by 50bp) and we suspected that it could have resulted from more heated discussion about monetary policy outlook. The president Glapiński did not confirm it today, but we guess that more hawkish Council members will be more vocal in expressing their concerns in the coming weeks. But of course to see a significant change in the balance of votes would require much more hard arguments from economic data. For now, we assume that the first interest rate hike is still likely in the final quarter of 2018.

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

Global economy continues to recover. Economic growth in the euro area remains higher than in the previous year, driven by an improvement in the labour market conditions, favourable sentiment of economic agents, and a recovery in international trade. ~~In~~Also in the United States ~~GDP growth in 2017 Q3 was close to that observed in the previous quarter, despite the negative impact of adverse weather factors on~~ economic ~~activity. In~~ conditions remain favourable. At the same time, in China ~~economic growth~~incoming data indicate a slight slowdown in ~~2017 Q3 slowed down slightly~~GDP growth.
Despite ongoing global recovery, inflation abroad remains moderate, on the back of persistently low domestic inflationary pressure in many countries. At the same time, prices of certain commodities, including oil, have risen ~~somewhat of late.~~in recent months.
The European Central Bank keeps interest rates close to zero, including the deposit rate below zero~~. At the same time, the ECB has extended the duration of the asset~~, and continues to purchase ~~programme at least until September 2018, cutting the amount of monthly purchases as of next year by half.~~financial assets. The US Federal Reserve~~, in turn, has~~ started reducing its balance sheet in October.

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In Poland, ~~monthly data indicate that~~annual GDP growth accelerated in 2017 Q3 ~~was probably higher than in the previous quarter.~~to 4.9%. Growth was still driven primarily by consumer demand, supported by rising employment and wages, disbursement of benefits and very good consumer sentiment. ~~At the same time, faster construction and assembly output growth than in the first half of the year points to a probable recovery in investment.~~Gross fixed capital formation also picked up in 2017 Q3, mainly on the back of a rise in public investment, while the corporate investment growth rate remained negative. The acceleration in GDP growth was fuelled by a significantly higher export growth rate.

~~The annual growth in prices of consumer goods and services remains at a moderate level. All core inflation measures have risen, though still remain moderate.~~Annual consumer price growth rose in November to 2.5%. The main factor behind the rise in inflation is high food price growth and markedly higher than in previous years energy price growth. Core inflation net of food and energy prices remains low. Wage growth in national economy remained stable in 2017 Q3 and the growth in unit labour costs in national economy declined, despite a rise in wage growth in the enterprise sector.

~~The Council became acquainted with the results of the November projection of inflation and GDP, prepared under the assumption of unchanged NBP interest rates. In line with the November projection based on the NECMOD model, there is a 50-percent probability that the annual price growth will be in the range of 1.9-2.0% in 2017 (against 1.6-2.3% in the July 2017 projection), 1.6-2.9% in 2018 (compared to 1.1-2.9%) and 1.7-3.7% in 2019 (compared to 1.3-3.6%). At the same time, the annual GDP growth – in line with this projection – will be with a 50-percent probability in the range of 3.8-4.6% in 2017 (against 3.4-4.7% in the July 2017 projection), 2.8-4.5% in 2018 (compared to 2.5-4.5%) and 2.3-4.3% in 2019 (compared to 2.3-4.3%).~~

In the Council's assessment, favourable economic conditions in the Polish economy will continue in the next quarters. Yet, it may be expected that GDP growth will decelerate slightly in the following years. Taking into account the present information, ~~including the results of the November projection, the~~ the Council judges that ~~in the coming years~~ inflation will ~~run~~remain close to the inflation target over the projection horizon. As a result, the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic stability.

The Council adopted a resolution on the remuneration on the required reserve~~ ratios~~. In line with this resolution, the remuneration of the required reserve ~~ratio on funds received for at least a two-year period~~ will ~~stand at~~amount to 0.50%. The resolution comes into force on 1 ~~March 2018 and applies since the required reserve maintenance period starting on 30 April~~January 2018.