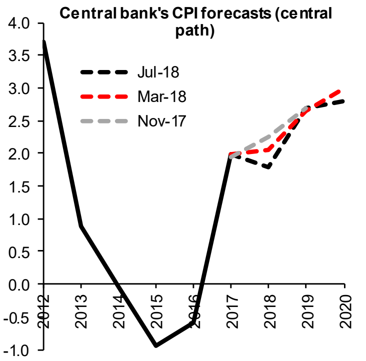
Bank Zachodni WBK
Grupa Santander

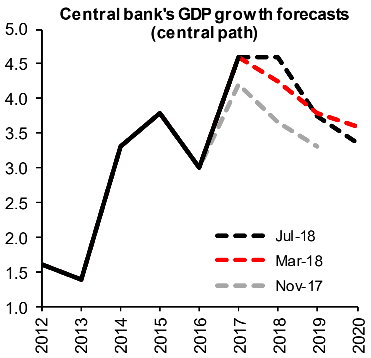
POST-MPC COMMENT

11 July 2018

No change in monetary policy outlook

The Monetary Policy Council kept interest rates unchanged, as expected. The new NBP projection shows slightly lower path of inflation in 2018 and 2020 as compared to its March version. Yet, CPI is still expected to head above the official 2.5% target in 2019-20 (with mid-point in 2020 at 2.8%). GDP projection has been increased for 2018 and lowered slightly for 2019-20. The new projection gave the MPC absolutely no new arguments to change their view, so the central bank still believes that there are no reasons to mull changes in monetary policy in a foreseeable future. We still believe that the main interest rates will remain on hold at least until November 2019.





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NBP governor Adam Glapiński said during the press conference that in his view the results of the new NBP projection increase the probability of interest rates stabilisation for long. In his view such economic scenario would justify keeping monetary policy on hold even until the end of 2020 (Glapiński made a similar pledge already in May). NBP Governor stressed that it was his private opinion, while other MPC members may have different perspective, which was confirmed immediately by Łukasz Hardt's comment. The latter said that he was not as convinced about no need to change monetary policy next year and that the next decision will be definitely a rate hike, not a cut. But even Hardt, considered one of the most hawkish MPC members, admitted that at this point inflation (and core inflation) remains so low that the central bank does not have to hurry with decisions.

Summing up, there were absolutely no surprises from the central bank today. The new NBP projection did not give any more arguments to consider policy change than its earlier version. Thus, our expectations regarding the monetary policy outlook remain unchanged. We think that the main interest rates will remain unchanged at least until November 2019. The first rate hike is possible at the very end of 2019, in our view, if the economic growth remains decent by then, inflation really exceeds the target with no signs of upward trend coming to an end, and the ECB starts lifting interest rates as well.

Inflation and GDP projections

	GDP growth				CPI inflation			
	Jul 17	Nov 17	Mar 18	Jul 18	Jul 17	Nov 17	Mar 18	Jul 18
2017	3.4÷4.7	3.8÷4.6			1.6÷2.3	1.9÷2.0		
2018	2.5÷4.5	2.8÷4.5	3.5÷5.0	4.0÷5.2	1.1÷2.9	1.6÷2.9	1.6÷2.5	1.5÷2.1
2019	2.3÷4.3	2.3÷4.3	2.8÷4.8	2.8÷4.7	1.3÷3.6	1.7÷3.7	1.7÷3.6	1.9÷3.5
2020	-	-	2.6÷4.6	2.4÷4.3	-	-	1.9÷4.1	1.7÷3.9

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)

Global economic conditions remain favourable. ~~In particular, economic activity in~~ In the euro area ~~is high~~, incoming data suggest continued favourable economic situation, despite ~~some weakening of~~a slightly slower GDP growth than in ~~2018 Q1~~2017. Similarly, in the United States, economic conditions remain ~~good~~sound, while incoming data suggest ~~that a slowdown in~~ GDP growth in 2018 ~~Q1 was temporary.~~Q2 picked up. In China, in turn, economic ~~growth~~activity has continued at stable rates for the past few quarters.
Despite favourable global economic conditions, inflation abroad remains moderate on the back of persistently low domestic inflationary pressure across many countries~~.~~ and a decline in some agricultural commodity prices. At the same time, ~~oil prices – even with a recent decline – are still~~ significantly higher oil prices than a year ago are increasing inflation rates.
The European Central Bank keeps interest rates close to zero, including the deposit rate below zero~~, while still purchasing financial assets.~~. At the same time, the ECB continues to purchase financial assets, although it has announced a reduction in the scale of purchases from October 2018 and the termination of the programme by the end of the year. The Federal Reserve raised interest rates in June and continues to gradually reduce its balance sheet~~, signalling further interest rate increases.~~.
In Poland, ~~annual GDP~~economic growth ~~in 2018 Q1 was close to that recorded in the previous quarter. Economic growth~~remains relatively high. It is driven by rising consumption, fuelled by increasing employment and wages, disbursement of benefits and very strong consumer sentiment. This is probably accompanied by a further recovery in investment. ~~In 2018 Q1, also rising inventories were a significant factor supporting economic growth, while contribution of net exports was negative.~~
Notwithstanding relatively high economic growth and wages rising faster than in the previous year, consumer price growth remains moderate. ~~Inflation~~The slightly higher annual CPI rate than in the previous months reflects the growth in fuel prices. At the same time, inflation net of food and energy prices stays low.
The Council became acquainted with the results of the July projection of inflation and GDP, prepared 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 annual price growth will be in the range of 1.5-2.1% in 2018 (against 1.6-2.5% in the March 2018 projection), 1.9-3.5% in 2019 (compared to 1.7-3.6%) and 1.7-3.9% in 2020 (compared to 1.9- 4.1%). At the same time, annual GDP growth – in line with this projection – will be with a 50-percent probability in the range of 4.0-5.2% in 2018 (against 3.5-5.0% in the March 2018 2/2 projection), 2.8-4.7% in 2019 (compared to 2.8-4.8%) and 2.4–4.3% in 2020 (compared to 2.6–4.6%).
In the Council's assessment, current ~~data continue to~~information and the results of the projection point to a favourable outlook for economic activity growth in Poland, despite the expected ~~slight~~ slowdown in GDP growth in the coming years. In line with the ~~available forecasts~~results of the projection, inflation will remain close to the target in the monetary policy transmission horizon. As a result, the Council judges that the current level of interest rates is conducive to keeping the Polish economy on a sustainable growth path and maintaining macroeconomic stability.

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