Bank Zachodni WBK
Grupa Santander

POST-MPC COMMENT

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Oasis of stable rates

The Monetary Policy Council kept interest rates unchanged, as expected, with the main rate at 1.50%. The concluding remarks in the statement still point to the Council's conviction that inflation will remain close to the target for long. The MPC sees economic outlook as positive despite some slowdown expected in the coming years. Thus the Council still thinks keeping rates stable is the optimal solution. According to NBP Governor Adam Glapiński with no external shocks, rates could stay on hold until the end of 2019 or even in the first quarters of 2020. We think the period of interest rate stability will last until at least November 2019. In our view, decision to hike rates will require solid macro conditions and economic outlook as well as a move by ECB.

MPC kept interest rates unchanged (main rate at 1.50%), as expected. Summer holiday break did not bring a revision of the Council's views. The statement is almost the same as in July, stressing that continued positive economic situation in Poland and abroad still has no impact on inflation. The MPC attributed the rise of inflation after 1Q to higher oil prices. Referring to 2Q GDP data, the MPC did not mention surprise weakness of investments but instead it underlined strong consumption and growing investment outlays in public sector and in big companies (however, NBP is going to formally ask the stats office about methodology of investment measurement). The concluding remarks in the statement still point to the Council's conviction that inflation will remain close to the target for long. The MPC sees economic outlook as positive despite some slowdown expected in the coming years. Thus the Council still thinks keeping rates stable is the optimal solution.

At the MPC press conference, NBP governor Adam Glapiński reiterated that Poland is an "oasis of stability", while the stable level of interest rates is an advantage. Currently it is hard to find reasons to resign from this advantage (MPC member Jerzy Żyżyński agreed with this). According to Glapiński, with no external shocks, rates could stay on hold until the end of 2019 or even in the first quarters of 2020. In his view, it cannot be excluded that in 2020 ECB would resort to QE again to stimulate the economy, which would further delay interest rate hikes in Poland. NBP chairman said that he does not believe trade wars would turn as severe as in the 19th Century. Moreover, he said that at the BIS central bankers' meetings it is still not a vision of economic overheating that worries the participants, but rather fear of economic slowdown and a returning risk of deflation. Kamil Zubelewicz said that the current monetary policy is not stable if seen through (negative) real interest rates and in case risk of inflation overshooting the target grows, there will be motions to hike rates. Governor Glapiński instantly commented that Zubelewicz is one of the only two MPC members of the 10-strong Council who challenge the internal consensus about the future path of interest rates.

Adam Glapiński mentioned that there are no significant changes in approved 2019 monetary policy guidelines (unpublished). Dovish MPC member Eryk Łon postulated recently to input a passage allowing use of unconventional measures.

To sum up, the September MPC statement and press conference did not change our understanding of the Council's attitude and plans. We still assume that rates will stay unchanged at least until November 2019. In our view, decision to hike rates will require solid macro conditions and economic outlook as well as ECB making the move first.

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

Global economic conditions remain favourable. In the euro area, economic situation continues to be favourable, despite slightly slower GDP growth than in 2017.
Despite favourable global economic conditions, inflation abroad remains moderate. At the same time, an increase in oil prices in the recent months has driven up inflation indices in many countries.
The European Central Bank keeps interest rates close to zero, including the deposit rate below zero. 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 continues to gradually tighten monetary policy.
In Poland, the 2018 Q2 GDP data point to high economic growth. It is driven by rising consumption, fuelled by increasing employment and wages, disbursement of benefits and very strong consumer sentiment. This is accompanied by a rise in investment, both in the public sector and among big enterprises. In 2018 Q2, exports picked up markedly, leading to a positive contribution of net exports to GDP growth.
Notwithstanding high economic growth and wages rising faster than in the previous year, consumer price growth remains moderate. The slightly higher annual CPI rate than in 2018 Q1 reflects mainly the growth in fuel prices. At the same time, inflation net of food and energy prices continues to be low.
In the Council's assessment, current information point to a favourable outlook for economic growth in Poland, despite the expected slowdown in GDP growth in the coming years. In line with the available forecasts, 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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