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Economic Comment

Inflation projection up, MPC views stable

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In line with expectations, the MPC left interest rates unchanged with the main policy rate at 1.50%. In the new economic projections prepared by NBP, the inflation path has been revised significantly up for 2019. Forecasts for GDP have been revised up again for 2018 and down again for 2019 and 2020. Acknowledging the results of the projections, the MPC still views the current level of the interest rates as "conducive to keeping the Polish economy on a sustainable growth path". According to Adam Glapiński, the NBP projection did not provide new reasons for a shift in monetary policy and the statement underlined that the inflation rise above the target will be driven by factors beyond impact of the monetary policy. We still expect interest rates to stay flat at least until 4Q19.

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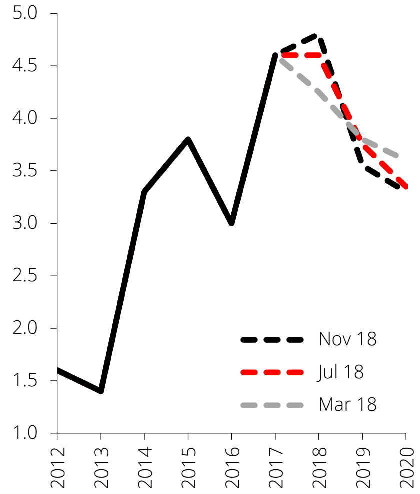
NBP governor Adam Glapiński said that the new projection did not change his personal beliefs. Higher inflation path results from exogenous supply factors (like energy commodities prices) that are beyond the scope of monetary policy impact. He added that in the new projections nor wages pace of growth nor inflation path (generally unchanged), are reasons to worry. In the governor's opinion there are still no reasons at all to change the interest rates in 2019 and if no new factor appears, this conclusion also applies to 2020.

The discussion during the MPC meeting was focused on energy prices and workers from Ukraine. Glapiński stressed that the NBP forecast was based on "conservative" expectations about energy prices, which means they were assumed at very high level and may soon prove too high given downward move of global oil and coal prices in November. As regards risk of outflow of workers from Ukraine to Germany, Glapiński said that this potential phenomenon would be distributed in time and would not be a shock, so monetary policy response would not be necessary.

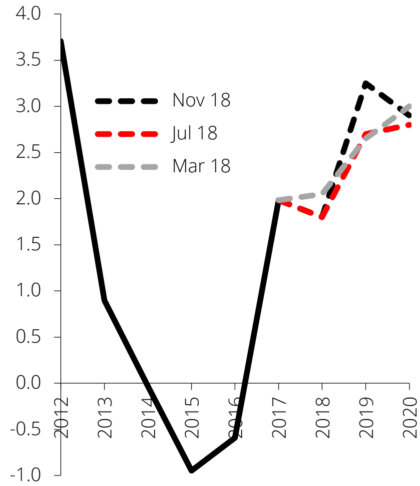
Despite inflation forecasts going up, the November MPC meeting did not bring any changes to the rhetoric. According to the NBP governor, the new set of forecasts provided no arguments to change the monetary policy and the official statement underlined that the expected jump of inflation will be based on factors not affected by the monetary policy. Thus, we do not change our expectations about interest rates in Poland: in our view rates will remain stable at least until late 2019.

Central bank's GDP growth forecasts (central path)



Source: NBP, Santander Bank Polska

Central bank's CPI forecasts (central path)



Source: NBP, Santander Bank Polska

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Inflation and GDP projections in subsequent *Inflation reports*

	GDP growth			
	Nov 17	**Mar 18**	**Jul 18**	**Nov 18**
2017	4.2 (±0.4)			
2018	3.7 (±0.8)	4.3 (±0.8)	4.6 (±0.6)	4.8 (±0.4)
2019	3.3 (±1.0)	3.8 (±1.0)	3.75 (±0.95)	3.55 (±0.85)
2020	-	3.6 (±1.0)	3.35 (±0.95)	3.25 (±0.95)
	CPI inflation			
2017	1.95 (±0.05)			
2018	2.3 (±0.7)	2.1 (±0.5)	1.8 (±0.3)	1.8 (±0.1)
2019	2.7 (±1.0)	2.7 (±1.0)	2.7 (±0.8)	3.25 (±0.65)
2020	-	3.0 (±1.1)	2.8 (±1.1)	2.9 (±1.0)

Middle points of GDP and CPI growth paths and width of 50-percent probability ranges.

MPC statement (indication of changes as compared to October statement)

Global economic conditions remain favourable, **although signs of a weakening have appeared in some economies**. In the euro area, GDP growth **declined in 2018 Q3, and some indicators of economic conditions deteriorated. At the same time, in** the United States growth **has picked up slightly**, which confirms that economic conditions in this country are **still very** strong. In **turn, in** China activity growth **is gradually slowing down**.
A rise in uncertainty about the global economic outlook contributed to some weakening of sentiment in the international financial markets. Concurrently, energy commodity prices have decreased slightly, following their previous sharp rise. The relatively high level of these prices continues to add to inflation in many countries. At the same time, core inflation in the external environment of the Polish economy, including the euro area, remains moderate.
The European Central Bank keeps interest rates close to zero, including the deposit rate below zero. **Alongside that**, the ECB continues to purchase financial assets, although it **has reduced** the scale of the purchases and has announced **their** termination **by** the end of the year. The Federal Reserve **continues to gradually tighten monetary policy.**
In Poland, incoming data point to economic conditions remaining strong, **although in 2018 Q3 GDP growth was probably lower than in the first half of the year.** GDP growth is **still** driven by rising consumption, **albeit at a slightly lower rate than in the previous quarters, that is** fuelled by increasing employment and wages **as well as** very high consumer sentiment. This is accompanied by a rise in investment.
Notwithstanding **relatively** high economic growth and wages rising faster than in the previous year, consumer price growth remains moderate. At the same time, inflation net of food and energy prices continues to be low.
<u>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 annual price growth will be in the range of 1.7-1.9% in 2018 (against to 1.5- 2.1% in the July 2018 projection), 2.6-3.9% in 2019 (compared to 1.9-3.5%) and 1.9-3.9% in 2020 (compared 1.7-3.9%). At the same time, annual GDP growth – according to this.</u>
In the Council's assessment, current information **and the results of the projection point** to a **relatively** favourable outlook for economic **conditions** in Poland, **although a gradual slowing** in GDP growth **is expected** in the **years ahead**. In line with the **projection**, inflation **in 2019 will probably exceed 2.5%, boosted, among others, by a rise in energy prices remaining beyond the impact of monetary policy, but will remain within a band for deviations from the target. In the medium term, in turn, the expected slowdown in economic growth will have a dampening effect on inflation. In effect**, in the monetary policy transmission horizon **inflation will remain close to the target**.
<u>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.</u>

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