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Economic Comment

MPC not worried about fiscal impulse

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In line with expectations, the MPC kept interest rates unchanged with the main policy rate at 1.50%. The new central bank's projections show lower inflation (with mid-point not exceeding much the 2.5% target in the 3-year horizon) and higher GDP growth (yet slowing slightly) than in the previous edition. Lower inflation is no surprise, as the November's forecast was based on unrealistic assumption of big surge of energy tariffs. Higher GDP reportedly reflects the impact of recent PiS election promises, boosting consumption.

The tone of the official MPC statement did not change. The NBP governor said that the looming fiscal impulse should be positive for the economy, but is not "excessive" and does not increase the chances for monetary tightening. He repeated that rates could remain unchanged until the end of the MPC's term (2022). Glapiński also mentioned that theoretically there is still room for interest rate reduction, but such scenario is not taken seriously into account by the MPC. Interestingly, Łukasz Hardt said he would not risk declaring rate stability until the end of term of office and in his view the optimal strategy for monetary policy would be adaptation to incoming data.

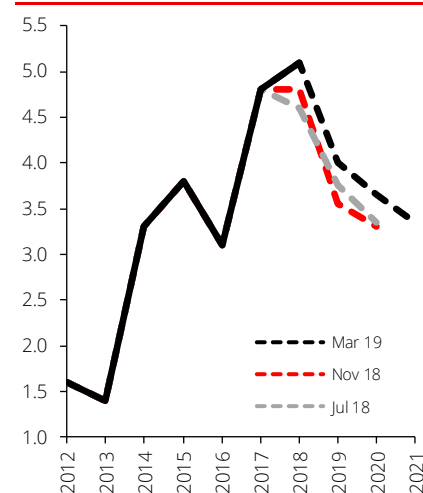
Overall, the message from the central bank remained broadly unchanged, just as we expected. As long as inflation stays low, any change in rhetoric is unlikely. The situation may get more interesting by the end of this year, as we expect both CPI and core inflation to converge to 2.5% target. But for now, stability is the name of the game.

Inflation and GDP projections in subsequent *Inflation* reports

	GDP growth			
	Mar 18	Jul 18	Nov 18	Mar 19
2018	4.3 (±0.8)	4.6 (±0.6)	4.8 (±0.4)	
2019	3.8 (±1.0)	3.75 (±0.95)	3.55 (±0.85)	4.0 (±0.7)
2020	3.6 (±1.0)	3.35 (±0.95)	3.25 (±0.95)	3.65 (±0.95)
2021	-	-	-	3.35 (±0.95)
	CPI inflation			
2018	2.1 (±0.5)	1.8 (±0.3)	1.8 (±0.1)	
2019	2.7 (±1.0)	2.7 (±0.8)	3.25 (±0.65)	1.7 (±0.5)
2020	3.0 (±1.1)	2.8 (±1.1)	2.9 (±1.0)	2.65 (±0.95)
2021	-	-	-	2.4 (±1.1)

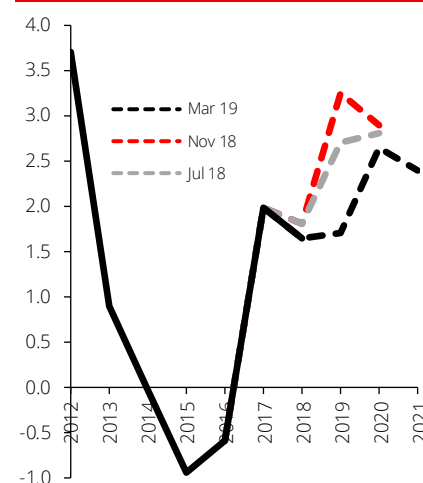
Middle points of GDP and CPI growth paths and width of 50-percent probability ranges.

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

Incoming data ~~indicates~~suggest a weakening in some of the largest economies, amid heightened uncertainty ~~regarding~~about the outlook for global economic activity in the coming quarters. In the euro area, GDP growth in 2018 Q4 ~~remained~~was lower than in the first half of 2018, while ~~economic climate indicators declined~~available forecasts suggest a further weakening in ~~the recent period~~2019. In the United States, ~~GDP growth in 2018 Q4 slowed down, although economic conditions in this economy remain strong. At the same time, in good, although a slight slowdown in GDP growth is expected there.~~ In China activity growth continues to gradually decline.

Despite ~~some~~an increase in global oil prices ~~that~~ the ~~recent period~~beginning of 2019, their level is still lower than in 2018 Q3. This is leading to a decline in inflation in many countries. Alongside that, core inflation in the environment of the Polish economy, including the euro area, remains low.

The European Central Bank keeps interest rates close to zero, including the deposit rate below zero. At the same time, the ECB continues to reinvest the funds from the maturing securities. ~~Following an interest rate hike in December 2018, the~~The US Federal Reserve is keeping interest rates unchanged.

In Poland, ~~preliminary GDP data for 2018 suggest that~~ GDP growth in 2018 Q4 remained relatively high, ~~although it was slightly lower than in previous quarters.~~ GDP growth is ~~still~~ driven by rising consumption – albeit at a slightly lower rate than in previous quarters – that is fuelled by increasing employment and wages as well as very high consumer sentiment. This was accompanied by a rise in investment.

Notwithstanding relatively high economic growth and wages ~~increasing~~rising faster than in ~~the~~ previous years, annual consumer price growth has declined in recent months and ~~remains moderate. At the same time, inflation is running at a low level. Inflation~~ net of food and energy prices continues to be low, ~~despite possible increase in January.~~

~~The Council became acquainted with the results of the March projection of inflation and GDP, prepared under the assumption of unchanged NBP interest rates. The March projection takes into account data and information published up to 15 February 2019 – including information on statutory freeze on electricity prices – as well as preliminary information on changes in fiscal policy announced on 23 February 2019. In line with the March projection based on the NECMOD model, there is a 50-percent probability that the annual price growth will be in the range of 1.2-2.2% in 2019 (against 2.6-3.9% in the November 2018 projection), 1.7-3.6% in 2020 (compared to 1.9-3.9%) and 1.3-3.5% in 2021. At the same time, the annual GDP growth – according to this projection – will be with a 50-percent probability in the range of 3.3-4.7% in 2019 (against 2.7-4.4% in the November 2018 projection), 2.7-4.6% in 2020 (compared to 2.3-4.2%) and 2.4-4.3% in 2021.~~

In the Council's assessment, the outlook for economic conditions in Poland remains favourable. However, in the quarters to come, there will probably be a gradual slowdown in GDP growth. At the same time, ~~according to current forecasts, the annual price growth will increase in the coming months, yet – due to lower oil prices than in 2018 Q3 and the freeze on electricity prices – the scale of this increase will be markedly smaller than anticipated in the November projection. In the medium term, the expected slowdown in economic growth will have a dampening effect on inflation. Consequently inflation will remain at a moderate level and, in the monetary policy transmission horizon, inflation will remain~~stay close to the target~~–. Such an assessment is supported by the results of the March projection of inflation and GDP~~

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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