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Economic Comment

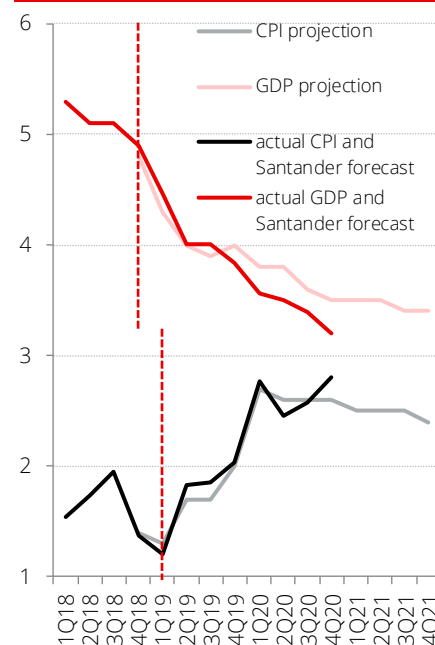
MPC: No risk of higher inflationary pressure

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In line with expectations, the MPC kept interest rates unchanged with the main policy rate at 1.50%. The official communique was short and its tone remained dovish – the Council expects economy to slow gradually and inflation to remain moderate and “near the target” in the medium run. NBP Governor Adam Glapiński repeated his view that the new fiscal stimulus will have no influence on interest rate policy, as in his opinion it will increase economic growth slightly and will have negligible impact on inflation. He said the government plans are “completely safe” and will generate absolutely no risks, only positive effects. MPC’s Jerzy Żyżyński shared similar view. Kamil Zubelewicz, considered the most hawkish MPC member, pointed that several Council members had different opinion at the meeting and were raising concerns that the fiscal impulse could push inflation higher. However, he admitted that the impact should not be greater than 1pp and is unlikely to push inflation above the 2.5% target. Glapiński was very confident that there was no risk of rising inflationary pressure in Poland, neither from fiscal impulse, nor from the labour market, as the global growth is fading and the environment is highly unsupportive for price growth.

Overall, the official rhetoric of the MPC remains dovish and even though some concerns about the fiscal easing started appearing, it is far too early to change the monetary policy bias. We still believe that there will be no change in monetary policy in Poland by the end of this year.

March NBP projection vs Santander forecast



Source: NBP, Santander Bank Polska

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

Incoming data ~~suggest~~confirm a weakening in some of the largest economies, amid ~~heightened~~persistent uncertainty about the outlook for global ~~economic~~ activity ~~in~~over the coming quarters. ~~Information on~~ the euro area, ~~GDP indicates continued low economic growth in 2018 Q4 was lower than in the first half of 2018, while available forecasts suggest a further weakening in 2019, this region at the beginning of the year.~~ In the United States, economic conditions remain good, although ~~a slight slowdown in~~ GDP growth ~~is expected there probably slowed down in 2019 Q1.~~ In China activity growth continues to gradually decline.

Despite ~~an increase~~a rise in global oil prices at the beginning of 2019, their current level is still lower than in 2018 Q3. This is ~~leading to a decline in~~translating into moderate 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 ~~keep~~has extended the period of keeping interest rates ~~close to zero at the current level~~, including the deposit rate below zero. ~~At the same time, the ECB continues to reinvest. Moreover, it has announced launching additional operations providing liquidity to the funds from the maturing securities banking sector.~~ The US Federal Reserve ~~is keeping~~has kept interest rates unchanged. ~~At the same time, the Fed has announced it will stop reducing the size of its balance sheet in the coming quarters.~~

In Poland, ~~economic conditions remain good, although incoming data indicate that the~~ GDP growth in 2019 Q1 ~~was softer than in 2018 Q4 remained relatively high.~~ GDP Activity growth is 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~~is accompanied by a rise in investment.

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

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, inflation will remain at a moderate level and, in the monetary policy transmission horizon, will 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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