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Economic Comment

Interest rates on hold, again

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The Monetary Policy Council kept main interest rates unchanged again (reference rate at 1.50%), in line with expectations. In the official statement the MPC wrote that economic outlook for Poland remains good, although there is some uncertainty regarding the depth and persistence of the slowdown. The Council expects that inflation may exceed the upper limit of +/- 1pp band of deviations around the target in the nearest months, but the acceleration of price growth will be temporary and driven by supply-side and regulatory factors, which remain beyond the direct impact of domestic monetary policy. Thus, inflation should decrease later this year, and hover near the inflation target in the medium run.

At the press conference the NBP governor repeated his earlier views: interest rates should remain unchanged until the end of his term of office (2022) and the probability of rate cuts is higher than of rate hikes. Kamil Zubelewicz (the most hawkish MPC member) present at the conference, said that interest rates are too low, but the Council should wait with decision until the new inflation projection (next month). Ultra-dovish Eryk Łon said, in turn, that he still sees room for slight monetary easing that would support economic growth.

On balance, nothing new on the monetary policy front in Poland. The situation may get more interesting once/if economic outlook improves visibly later this year, but as long as economic slowdown is in progress the majority of MPC members will not think seriously about any policy tightening.

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

Global incoming data from the global economy indicate a stabilisation of economic growth remains at a relatively low, although signs of a possible trade agreement between the United States and China have translated into a certain improvement in sentiment in the global economy. Despite this level. At the same time, uncertainty about the global outlook in the coming quarters persists, despite some indicators suggesting some improvement in sentiment. In the euro area, economic growth remains slow alongside declined in 2019 Q4, amidst the ongoing downturn in industry. In the United States, economic conditions continue to be relatively strong, although, like in many other economies, industrial activity remains weak. In China, industry had a curbing effect on economic activity growth in 2019 Q4. In China, GDP growth stabilised in 2019 Q4 at a lower level than in the previous years.

In the recent period, global oil prices have risen reflecting a certain improvement in sentiment about trade relations between fallen, following their previous substantial rise. At the major economies as well as a significant increase of geopolitical tensions in same time, the Middle East. Nevertheless prices of many food commodities have increased in recent months. As a result, inflation in the external environment of the Polish economy is running at a moderate level and in the euro area it is low has risen somewhat.

The European Central Bank is keeping the deposit rate below zero, while conducting asset purchases and signalling the maintenance of loose monetary policy in the coming quarters. After the 2019 interest rate cuts, the US Federal Reserve is keeping the rates unchanged.

In Poland, economic conditions remain good, despite a gradual slowdown in economic growth. Based on the Statistics Poland GDP flash estimate for 2019, it could be estimated that GDP growth in 2019 Q4 decreased. GDP growth is supported by stable the steady consumption growth, albeit slightly slower than before, fuelled by favourable labour market conditions, very strong consumer confidence and social benefit payments. At the same time, incoming data indicate further growth in investment and exports, albeit slower than in the previous quarters.

According to the GUS flash estimate, CPI inflation stood at 3.4% y/y in December 2019. Inflation in December was driven up by rising food and fuel prices. Alongside that, at the same time, accelerated service price growth boosted core inflation, after a rise in recent months partly resulting from higher services prices, which nevertheless remained moderate.

In the Council's assessment, the outlook for economic conditions in Poland remains favourable, and yet GDP growth, despite the expected decline, will continue at a relatively high level probably be weaker than in the coming quarters. At the same time, there previous years. There remains uncertainty about the scale and persistence of the slowdown abroad and its impact on domestic economic activity. Inflation – after a temporary rise in 2020 Q1 – will stay close to the target in the monetary policy transmission horizon.

Current forecasts show that inflation may exceed the upper limit of band for deviations from the target in the coming months. The temporary rise in price growth will be driven by supply-side and regulatory factors, i.e. ones remaining beyond the direct impact of domestic monetary policy. As the impact of these factors fades and GDP growth weakens, inflation will gradually decrease. In the monetary policy transmission horizon inflation will be close to the target.

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, while at the same time enabling to meet the inflation target in the medium term.

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