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Economic Comment

Keep calm and stabilize rates

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The Monetary Policy Council kept interest rates unchanged, with the main reference rate at 1.5%. The official statement did not show much signs of coronavirus-related worries. As expected, the new NBP projection shows inflation higher (mid-point +0.8pp in 2020) and GDP growth lower (-0.35pp in 2020) than previously predicted. However, the Council still believes the economic outlook is favourable (although GDP will slow slightly), and inflation will converge to the official target in the medium term, after the factors remaining beyond the monetary policy's influence dissipate. Such communication does not suggest any significant change in the MPC's policy bias towards more dovish. To the contrary, during the press conference the NBP Governor Adam Glapiński has rather downplayed any speculation that interest rate cuts are needed in Poland (although admitting that a cut is more likely to be the next move in future than a hike). He said there are some risks for economic stemming from virus expansion, but they are impossible to measure and assess. Thus, the Council will keep observing the situation with big patience. He confirmed the earlier view that rates' stability until the end of the MPC's term of office is the baseline scenario. Such view was supported by two MPC members present at the conference (Ancyparowicz, Sura).

Summing up, the Monetary Policy Council still sees a big virtue in interest rate stabilization and does not seem to be concerned about the possible virus implications. Any change in the policy bias towards more dovish would require, in our view, a clear evidence that the economic growth is slowing much more than currently anticipated. On the other hand, any considerations about monetary tightening are off the table, even though CPI will remain above the target in 2020-2021.

Inflation and GDP projections in subsequent Inflation reports

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

	GDP growth			
	Mar 19	Jul 19	Nov 19	Mar 20
2019	4.0 (±0.7)	4.5 (±0.6)	4.3 (±0.4)	-
2020	3.65 (±0.95)	3.9 (±0.9)	3.55 (±0.85)	3.2 (±0.7)
2021	3.35 (±0.95)	3.35 (±0.95)	3.25 (±0.95)	3 (±0.9)
2022	-	-	-	2.75 (±0.95)
	CPI inflation			
2019	1.7 (±0.5)	2.0 (±0.3)	2.3 (±0.1)	-
2020	2.65 (±0.95)	2.8 (±0.9)	2.85 (±0.75)	3.65 (±0.55)
2021	2.4 (±1.1)	2.4 (±1.1)	2.6 (±1.0)	2.65 (±0.95)
2022	-	-	-	2.35 (±1.05)

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

Incoming data from the global economy indicate a stabilisation of economic growth at a relatively low 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 declined in 2019 Q4, amidst the ongoing downturn in industry. In contrast, in the United States, economic conditions continue to be relatively strong, although the weaker GDP growth remained stable in this period, despite the subdued activity in industry had a curbing effect on economic growth in 2019 Q4. In China, GDP growth stabilised in 2019 Q4 at a lower level than in previous years, and economic activity growth weakened markedly at the beginning of 2020.

Due to the spread of coronavirus, uncertainty about the global economic outlook has increased and sentiment in the financial markets deteriorated recently.

In the recent period, global oil prices have fallen, following their previous substantial rise. At the same time considerably. In turn, the prices of many food commodities have increased in recent months, remain high. As a result, inflation in the global economy, including the external environment of the Polish economy, has risen somewhat in the past few months.

The US Federal Reserve lowered interest rates in March 2020. 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 Federal Reserve is keeping the rates unchanged.

In Poland, economic conditions remain good, despite a slowdown in economic growth. Based on the Statistics Poland GDP flash estimate for 2019, it could be estimated that in 2019 Q4, real GDP growth in 2019 Q4 decreased, stood at 3.2%. GDP growth is supported by the steady consumption growth, albeit slightly slower than before, fuelled by favourable labour market conditions, strong consumer confidence and social benefit payments. At the same time, incoming data indicate further growth in investment continued to rise and the contribution of net exports to GDP growth remained positive.

CPI inflation stood at 3.4% y/y in December 2019. Inflation in December was driven up by rising food and fuel prices. At the same time, accelerated service price growth boosted core inflation, which nevertheless remained moderate. According to the preliminary GUS data, inflation rose to 4.4% y/y in January 2020. The rise in inflation above the upper bound for deviations from the inflation target was driven by regulatory and supply-side factors that remain beyond the influence of domestic monetary policy. These comprised, in particular, higher electricity prices, higher fuel prices, an increase in waste disposal charges and in the excise tax on alcohol and tobacco, as well as a further rise in the prices of unprocessed food. The favourable financial situation of households and the resulting rise in consumption demand also put an upward pressure on price growth.

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 18 February 2020. In line with the March projection based on the NECMOD model, there is a 50% probability that inflation will be in the range of 3.1-4.2% in 2020 (compared to 2.1-3.6% in the November 2019 projection), 1.7-3.6% in 2021 (against 1.6-3.6%) and 1.3-3.4% in 2022. At the same time, the annual GDP growth – according to this projection – will be with a 50% probability in the range of 2.5-3.9% in 2020 (compared to 2.7-4.4% in the November 2019 projection), 2.1-3.9% in 2021 (against 2.3-4.2%) and 1.8-3.7% in 2022.

In the Council's assessment, the outlook for economic conditions in Poland remains favourable, yet GDP growth in the coming quarters will probably be weaker than in the previous years. There remains in the recent period, however, uncertainty about the scale and persistence of the economic slowdown abroad and its impact on domestic economic activity has increased.

Current forecasts show that in the coming quarters, the annual inflation may exceed remain above the upper limit of band bound for deviations from the inflation target in the coming months. The temporary rise in price growth will be driven by due to supply-side and regulatory factors, i.e. ones remaining beyond the direct impact influence 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. 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, while at the same time enabling to meet the inflation target in the medium term.

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