

POST-MPC COMMENT

2 September 2015

No change

The Monetary Policy Council once again kept interest rates on hold (the reference rate at 1.5%). At the press conference the NBP governor Marek Belka said that the MPC's stance has not changed – interest rates likely to remain stable until the end of its term. No significant changes affected also the NBP's forecasts of inflation (deflation to end in November, which is in line with our view) and economic growth (3.6% in 2015, which is close to our forecast). The Council started working on monetary policy guidelines for next year (they will be approved in mid-September), but according to NBP governor they will (naturally) include no significant modifications. Today's decision should have no impact on the market.

In line with expectations, Poland's Monetary Policy Council left interest rates unchanged. The decision was not surprising at all and it seems very likely that rates will remain at the current level until the end of the MPC's term. The Council has stressed even before that it finds no reasons to change monetary policy unless there is a significant change in the macroeconomic outlook. Although recently there were some negative surprises in the Polish macro data releases, in our view the economic outlook remains quite positive. The biggest concern now is situation in China and its impact on the global growth, but so far – despite the elevated uncertainty – we see no reason for a dramatic worsening of the global economic outlook. We think Poland's GDP growth should accelerate in the second year-half and should stay at a solid level in 2016. At the same time, inflation should rise gradually.

The central bank's assessment is similar to ours. During the MPC press conference, NBP governor Marek Belka said that forecasts for both GDP and CPI remain roughly unchanged. Deflation should end in November and the GDP growth from the last central bank's projection (3.6% this year) is still achievable. Today's statement points to some risk for the global growth and low inflation, but apparently so far this is not that serious issue to alter the most likely scenario for the Polish economy. As regards the deterioration of the recent economic activity indicators (PMI), MPC members said that these could be only temporary distortions perhaps in the sentiment rather than in the economic reality. The below-consensus GDP data did not make a big impression on the MPC members.

Taking into account current circumstances it is difficult in our view to justify further monetary policy easing in Poland, although at the same time a rate hike should not be expected too quickly – probably not before the end of 2016.

The MPC also discussed the new monetary policy guidelines for 2016, which would be approved on September 15. During the press conference the Council clearly indicated that no revolutionary changes should be expected.

During the press conference, the NBP's governor Belka again negatively assessed the recent proposals of FX loans conversion. Such assessment is consistent with the official opinion of the NBP sent to the parliament.

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Fragments of the MPC statement (indication of changes as compared to July statement)

Growth of global economic activity remains moderate. In the euro area, economic ~~conditions improve gradually~~ recovery continues, ~~although activity is still low~~ despite slight weakening of GDP growth in 2015 Q2. In the United States, ~~recent data suggest that the slowdown at the beginning of the year was temporary and the economic outlook is favourable~~ output growth has picked up. In turn, economic growth in China 2015 Q2 remained low as for this country, ~~while recession continues in Poland's eastern trading partners, i.e. Russia and Ukraine~~ and incoming data indicate that economic conditions might deteriorate further. Along with deepening recession in Russia and Brazil, this caused the increased concerns about the growth outlook of the developing countries.

~~Despite the ongoing recovery in developed economies, the sentiment in the financial markets has recently deteriorated in the wake of growing fears of a Greek insolvency. This was conducive to a fall in prices of some financial assets as well as a weakening of exchange rates of Central and Eastern European currencies, including the zloty. The rising risk of a stronger slowdown in emerging economies led to deterioration in the financial market sentiment and – in effect – to a drop of prices of many assets. In addition, prices of most commodities, including oil, have fallen again in the global markets.~~

Amidst moderate global economic activity and low commodity prices, price growth in many countries remains very low. In the United States and the euro area, inflation is still close to zero, while in some European economies prices continue to decline.

Major central banks keep interest rates at close to zero, but the Federal Reserve is signalling a possibility of their increase this year. At the same time, the ECB continues its asset purchase programme. The People's Bank of China has devalued the yuan, what was conducive to weakening of some emerging markets' currencies.

In Poland, GDP growth in 2015 Q2 ~~most likely continued at a previous quarter level~~ was slightly weaker than in the previous quarter. ~~Increase in consumption and investment, fuelled by an improving labour market situation, good financial condition of enterprises and a rise in lending, has probably remained the main driver of economic growth.~~ Economic growth continued to be driven primarily by consumption, supported by favourable labour market situation and growing household lending. GDP growth was also driven by further growth in investment – although weaker than in 2015 Q1 – fuelled by good financial condition of enterprises. In turn, contribution of net exports to GDP growth declined markedly. ~~At the same time, recent data do not indicate acceleration of economic growth in the coming quarters.~~ July data on production and retail sales point to a stabilisation of economic growth in the following quarters.

Due to moderate ~~pace~~ of growth in demand and the continuing negative output gap, there is no inflationary pressure in the economy. Moreover, low commodity prices and moderate nominal wage growth ~~are contributing to the continued lack~~ limit the risk of rising cost pressure. As a result, the annual consumer price growth remains negative, although ~~the increase in the annual growth of fuel and food prices in the recent period has limited~~ the scale of deflation is gradually diminishing. ~~The annual~~ Producer price growth is also negative, ~~while~~ and inflation expectations ~~remain very~~ are running low.

In the opinion of the Council, ~~the annual price growth will remain negative in the coming months, mainly due to the earlier sharp fall in commodity prices~~ continue to slowly increase in the nearest quarters. ~~At the same time, the expected stable economic growth~~ Its growth will be supported by the expected stable economic growth, amidst the recovery in the euro area and ~~good~~ a favourable situation in the domestic labour market, ~~reduce the risk of inflation remaining below the target in the medium term.~~ Such an ~~assessment is supported by NBP's July projection.~~ At the same time, increasing risk of stronger economic slowdown in emerging economies and the declining commodity prices have raised the uncertainty about the pace of inflation returning to the target. ~~Therefore,~~ The Council decided to keep NBP interest rates unchanged.