Bank Zachodni WBK
Grupa Santander

POST-MPC COMMENT

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Not any closer to rate cut

Today's Monetary Policy Council decision to keep rates on hold was in line with expectations and the statement did not bring any new elements either. As NBP Governor Marek Belka stated during the press conference, the Council did not get any closer to a rate cut. As we wrote after the March meeting, if the new projection did not convince them, it is hard to expect a change in opinion in the following months. The decision was probably unanimous, which was confirmed by the very early hour of the announcement. Belka said that currently the Council is quite unanimous in its views (which does not mean it will continue in future, as economic background might be different). The Council accepts a significant divergence of inflation from the target, treats the target very flexibly (which is in line with Monetary Policy Guidelines). It was even stated that given the fact that the main aim of the MPC (price stability) is maintained, the Council can also focus on stability of financial sector. It was emphasized that GDP growth remains strong (although 1Q16 slightly below 4Q15), labour market situation and wage bill dynamics is very good. Most of risks for growth are external and a materialization of those (Brexit was mentioned) could be trigger for rates change. What is interesting, Belka said that one of topics during MPC's discussion was about a possibility to adjust rates more significantly in one shot (not a sequence or a series of cuts). Nevertheless, this was purely theoretical at this stage and the bottom line after today's MPC meeting is: don't expect a rate cut in Poland in a few following months.

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

Global economic growth remains moderate ~~and the uncertainty about its outlook has recently increased~~ **amid continuing heightened uncertainty about its outlook. Uncertainty regards, above all, the scale of economic slowdown in the emerging economies and its translation into lower activity in the advanced economies.** ~~Economic recovery is under way~~ in the euro area **economic recovery continues**, ~~yet driven mainly by consumer demand amid weak investment and export growth~~. **Moderate growth is expected to continue in the coming quarters, although the slowdown in the emerging economies has a negative impact on the region's economic outlook.** In the United States, **after a slightly weaker** GDP growth ~~slowed down~~ in the second half of 2015, ~~following several years of recovery, and there is a risk of further economic weakening~~ **economic conditions are still relatively good**. In turn, economic ~~growth continues to decelerate~~ **slowdown** in China **continues**, while Russia and Brazil are still in recession. ~~Concerns that activity in the emerging market economies might weaken further and the threat that this might translate into lower activity in the advanced economies currently pose the greatest risk for global economic conditions.~~
~~Uncertainty about the global economy has affected financial market sentiment abroad, leading to a decline in the prices of many financial assets in recent months.~~ Prices of oil and other commodities, ~~including agricultural commodities, also remain low~~ **in the global markets – despite some increase in the last two months – are still markedly lower than a year ago.** ~~In consequence, consumer price growth in many economies, including in the euro area, is close to zero, and inflation forecasts for the coming years are being revised down.~~ **Low commodity prices, combined with moderate global economic activity, are the main factor behind very low consumer price growth in many economies. In some economies – including in the euro area – price growth is negative.**
~~The European Central Bank lowered interest rates in March and increased the scale of quantitative easing. In the United States, despite an increase in interest rate in December and indications of a further increase in the coming quarters, uncertainty about the future direction of monetary policy has risen.~~ **Against this background, the European Central Bank eased its monetary policy in March, lowering interest rates and increasing the scale of quantitative easing. At the same time, the Federal Reserve –**

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after increasing interest rates in December – is keeping rates unchanged, while indicating a possible interest rate rise in the coming quarters. The decisions of the major central banks and the increase in oil prices have recently led to some improvement in global financial market sentiment and an increase in asset prices, including stock prices and exchange rates of emerging economies

In Poland, stable economic growth continues ~~and data for 2015 Q4 has even confirmed a slight acceleration in GDP growth~~ **although the data on industrial production and construction output signal that GDP growth in 2016 Q1 might have been slightly lower than in the previous quarter**. ~~Domestic demand continues to be the key driver of GDP growth, supported by stable consumption growth and rising investment. The rise in demand is supported by favourable labour market conditions, positive consumer sentiment, sound financial standing of enterprises and their high capacity utilization, as well as lending growth.~~ **Stable consumption growth and rising investment continue to support economic growth. The rise in consumer demand is driven by steady growth in employment and improving consumer sentiment. Growth in investment is supported by sound financial standing of enterprises, their high capacity utilization and the relatively favourable prospects for demand. This is accompanied by stable lending growth. At the same time, economic growth is hampered by weakening external demand.**

As the output gap remains negative and **average** nominal wage growth is ~~only~~ moderate, **currently** there is no inflationary pressure in the economy. Annual consumer price growth and producer price growth remain negative. ~~Yet, the persistence of deflation results mainly from the strong fall in global energy commodity prices in recent quarters. Inflation expectations are still very low.~~ **However, external factors – particularly the earlier sharp fall in global commodity prices and low price growth in the environment of the Polish economy – continue to be the main reason for deflation. This is accompanied by very low inflation expectations.** The persisting deflation has not adversely affected decisions of economic agents so far.

~~The Council became acquainted with the projection of inflation and GDP prepared by the Economic Institute, which is one of the inputs to the Council's decisions on NBP interest rates. In line with the March projection based on the NECMOD model – prepared under the assumption of unchanged NBP interest rates and taking into account data available until 23 February 2016 (projection cut-off date) – there is a 50-percent probability that the annual price growth will be in the range of -0.9 – 0.2% in 2016 (against 0.4 – 1.8% in the November 2015 projection), 0.2 – 2.3% in 2017 (compared to 0.4 – 2.5%) and 0.4 – 2.8% in 2018. At the same time, the annual GDP growth – in line with this projection – will be with a 50-percent probability in the range of 3.0 – 4.5% in 2016 (against 2.3 – 4.3% in the November 2015 projection), 2.6 – 4.8% in 2017 (compared to 2.4 – 4.6%) and 2.1 – 4.4% in 2018.~~

In the Council's assessment, price growth will stay negative in the coming quarters due to the earlier ~~strong~~ fall in global commodity prices. At the same time, ~~a gradual increase in core inflation is expected~~. It will be accompanied by stable economic growth, including an expected rise in consumer demand growth driven by rising employment, forecasted acceleration of wage growth and an increase in social benefits. This notwithstanding, the downside risks to the global economic conditions **and the volatility of commodity prices** remain the sources of uncertainty for the domestic economy **and price developments.**

The Council continues to assess that – given the available data and forecasts – the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance.

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