

# POST-MPC COMMENT

5 October 2016

## Nothing interesting, again

The Monetary Policy Council kept interest rates unchanged, with the main reference rate still at 1.5%. The post-meeting statement was very similar as in September, and the NBP governor Głapiński started the press conference by saying that “nothing interesting is happening”. He also reiterated that interest rates should remain on hold this year and in 2017 and – if nothing bad happens – the next policy decision will be an interest rate hike (but not before 2018). Głapiński admitted that economic growth in 2016 is slightly lower than expected, but believes that in 2017 it will be ‘excellent’. At the same time, inflation should be trending up (end of deflation in 2016). The biggest central bank’s concern is investment outlook, but according to Głapiński it is ‘certain’ that investments will rebound, the only question is whether it will be end-2016 or early 2017.

Summing up, the message from the statement and the press conference was similar as in September – the MPC is not even thinking about monetary policy easing. We would need to see a very disappointing economic data to see reviving expectations for interest rate cuts, especially if inflation rate will be trending up.

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

Global economic growth remains moderate, while uncertainty about its outlook continues. In the euro area, economic growth is stable despite the negative impact of weak economic conditions in the non-European emerging market economies. In the United States, ~~GDP growth is lower than in previous years, but recent improvement in labour market has eased concerns about persistent deterioration in economic conditions~~ **incoming data point to some acceleration in GDP growth in 2016 Q3, which is accompanied by further improvement in the labour market.** ~~Recent indicators point to further slowdown in China. In China, economic growth is lower than in previous years, but recent data indicates a stabilisation of economic conditions.~~ Meanwhile in Russia recession is gradually receding.

~~Global commodity prices of oil and many other commodities in the global markets – despite a rise since the beginning of the year – are lower than in previous years.~~ **Global commodity prices of oil and many other commodities in the global markets – despite a rise since the beginning of the year – are lower than in previous years.** Low level of commodity prices, along with moderate global economic activity, has been the main factor behind low consumer price growth in many economies.

The European Central Bank keeps its interest rates close to zero, including the deposit rate below zero, and continues financial asset purchases. The Federal Reserve – after a hike in December 2015 – keeps the interest rates unchanged, indicating their possible increase in the future

In Poland, ~~GDP growth in 2016 Q2 picked up somewhat.~~ **stable economic growth continues. Incoming data indicate that GDP growth in 2015 Q3 was probably close to that observed in the previous quarter.** Steadily increasing consumer demand remains the main driver of economic growth. Consumer demand is supported by gradual improvement in the labour market, favourable household sentiment and the child benefit payments under the “Family 500 plus” programme. ~~Another factor contributing to higher GDP growth in 2016 Q2 was significant acceleration in exports.~~ **Data on construction and assembly output indicate that** declining investment is still containing economic activity. The decrease in investment is related to temporarily lower absorption of EU funds after expiration of the previous EU financial framework, as well as uncertainty ~~about the economic outlook in the enterprise sector.~~

~~With the negative output gap and moderate – though increasing – nominal wage growth, there is no inflationary pressure in the economy.~~ Annual growth in prices of consumer goods and ~~producer price growth~~ **services** remains negative, **yet deflation is gradually subsiding. Weakening deflationary trends are also visible in producer price developments.** The increase in price growth results from dissipating effects of the earlier sharp fall in global commodity prices, **and also the gradual acceleration in wage growth in Poland. Price growth is contained by low inflation abroad and negative output gap in the domestic economy.** At the same time, inflation expectations remain low. ~~According to available information, the persisting deflation has not adversely affected decisions taken by economic agents so far.~~

#### ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warszawa fax +48 22 586 83 40  
 email: ekonomia@bzwbk.pl Web site: <http://www.bzwbk.pl>  
 Maciej Reluga (Chief Economist) +48 22 534 18 88  
 Piotr Bielski +48 22 534 18 87  
 Agnieszka Decewicz +48 22 534 18 86  
 Marcin Luziński +48 22 534 18 85  
 Marcin Sulewski +48 22 534 18 84

#### TREASURY SERVICES:

Poznań +48 61 856 5814/30  
 Warszawa +48 22 586 8320/38  
 Wrocław +48 71 369 9400

In the Council's opinion, ~~the annual consumer price index will remain negative in the coming months. However, deflation will be gradually subsiding due to dissipating effects of low commodity prices in the global markets~~ **the scale of deflation will continue to decrease in the coming months.** ~~In the coming quarters,~~ higher price growth will be supported by stable GDP growth, amid accelerating wage growth and higher child benefits. In the coming quarters, investment growth should also rise, supported by good financial standing of enterprises, growing capacity utilisation of firms and a gradual increase in absorption of EU funds. The sources of uncertainty for expected economic activity and price developments are risks of a deterioration in the global economy and a fall in commodity prices

The Council confirms its assessment 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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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Economic Analysis Department, al. Jana Pawła II 17, 00-854, Warsaw, Poland, phone +48 22 534 18 88, email [ekonomia@bzwbk.pl](mailto:ekonomia@bzwbk.pl), <http://www.bzwbk.pl>.