

# POST-MPC COMMENT

17 May 2017

## 4% GDP growth not an argument for a rate hike

The Monetary Policy Council kept the main interest rates on hold in May. The reference rate is still at 1.5%. The rhetoric at the post-meeting press conference was similar to the ones heard in the previous months and the statement changed only a bit. The MPC expects that inflation will stay at the current moderate level and the risk of it slipping above the target in the medium term remains limited. The rise of core inflation caught attention of the Council, but it is still too low to affect the monetary policy. The members present at the press conference stated that the GDP growth rate of 4% should not generate imbalances in the Polish economy and consequently should not increase the probability of rate hikes. A further rise of inflation would be a good argument for monetary tightening, but for now there are no signs that it is going to happen. The NBP President Adam Glapiński said he did not expect the economy to maintain such pace of GDP growth, forecasting a return to c3.5%. Glapiński also believes that there will be no need for rate changes by the end of 2018, but pointed out that some members of the MPC assume high probability of rate changes in the middle of next year.

The MPC did not surprise. The stabilization of inflation in recent months has reinforced the MPC's view that the risk of breaching the inflation target is limited, and the acceleration of growth to 4% in their opinion does not generate the risk of rising imbalances, including price pressures. We maintain our view that the MPC will not hurry with monetary tightening and interest rate hikes are highly unlikely before mid-2018.

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

Global economic growth remains moderate, with signs of recovery strengthening in many economies. **are showing further signs of improvement, particularly in industry and international trade.** In the euro area, GDP growth is stable, accompanied by favourable sentiment in the economy. **data point to ongoing recovery.** In the United States, economic conditions are supported by improving labour market and a rebound in investment, although recent data point to some deceleration of growth in 2017 Q1. **GDP growth declined in 2017 Q1, most probably due to temporary factors.** In China, economic activity growth has stabilised, while in Russia economic conditions remain weak. **economic growth was higher than in the previous quarter, yet current data do not indicate a sustained acceleration in growth.**

In March, global commodity prices fell, yet remained higher than a year before. As a result, in many countries the annual price growth rates are significantly higher than in 2016, but their rise has come to a halt. **reflecting mainly an earlier increase in commodity prices.** At the same time, in many economies, including the euro area, core inflation is still moderate amid low demand pressure. However, energy commodity prices, mostly oil, have fallen recently

The European Central Bank keeps interest rates close to zero, including the deposit rate below zero. The ECB also continues its asset purchase programme, ~~albeit at a slower pace since April.~~ The Federal Reserve ~~has increased its interest rates,~~ indicating further monetary policy tightening in the future.

In Poland, ~~recent data on production still point to improving economic conditions in 2017 Q1.~~ **incoming data point to a pick-up in GDP growth in 2017 Q1.** Growth in economic activity is driven ~~mainly~~ **primarily** by increasing consumer demand, supported by a rise in employment and wages, ~~very~~ good consumer sentiment and child benefit payments. ~~This is confirmed by robust growth in retail sales.~~ **This is accompanied by improving conditions in industry and construction, which may point to a gradual recovery in investment demand**

The annual growth in prices of consumer goods and services, ~~after following~~ **after following** a significant rise at the beginning of the year, ~~declined somewhat in March.~~ **has stabilised at a moderate level.** Core inflation, **though gradually increasing,** remains low, which points to still ~~weak~~ **limited** demand pressure. Despite growing employment and wages, growth in unit labour costs remains moderate.

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In the Council's opinion, inflation will ~~stabilise at a~~ **remain** moderate ~~level~~ over the following quarters. The stabilisation of price growth in the coming quarters will result from fading effects of the past increase in global commodity prices, with only a gradual rise in domestic inflationary pressure stemming from improving domestic economic conditions. In consequence, the risk of inflation running persistently above the target in the medium term is limited.

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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