Bank Zachodni WBK
Grupa Santander

POST-MPC COMMENT

4 October 2017

CPI at 3.5% is unimaginable

The Monetary Policy Council left interest rates unchanged, with reference rate at 1.50%. Post-meeting statement did not change much, and the same can be said about the Council's rhetoric. NBP president Adam Glapiński reiterated his mantra he saw no reasons to hike rates until end of 2018, as the economy is balanced and inflation will remain moderate, even despite its recent upward surprise (yet new inflation path may go up a bit). Glapiński said also that Eryk Łon, who recently suggested that rates should go down, is a lonely dove. Rafał Sura agreed with Glapiński and said he saw no reasons to change monetary policy. Grażyna Ancyparowicz, on the other hand, proved to be a little more hawkish and she suggested that discussion about rate hikes may start in mid-2018, provided that wages grow stronger than expected, private investment rebounds and there are some external shocks. Much was said about the labour market; surprisingly, Sura said he expects a slowdown in wage growth, while NBP president argued that Poland still has available labour supplies plus it is unlikely that higher wage growth will translate into higher prices. According to Glapiński, CPI at 3.5% is 'unimaginable' in two years' time.

In general, nothing has changed in the MPC bias and majority of central bankers want to keep rates unchanged in the upcoming quarters. In our view, however, MPC members are underestimating the labour market developments and they may be surprised by wage growth as well as by its impact on CPI. This will make more MPC members join the hawkish camp in 2018. We expect rates to go up in 4Q18.

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

~~Signs of improvement in the global economy are strengthening.~~ **Global economy continues to recover.** Available data indicate that GDP growth ~~rate accelerated in 2017 Q2, and incoming data indicate continued favourable sentiment in this economy data indicate an ongoing recovery driven by rising consumption and investment~~ in the euro area **stabilised in 2017 Q3**, **after picking up in previous quarters**. In the United States ~~after a temporary decline, GDP growth probably picked up in 2017 Q2, and monthly indicators point to a continuation of strong economic conditions there~~, **economic conditions are strong, although adverse weather factors could have had a negative impact on economic activity in recent months**. In China, ~~GDP growth stabilised in 2017 Q2~~ **monthly indicators suggest that GDP growth may slow down slightly in 2017 Q3.**
Despite ongoing global recovery, inflation abroad remains moderate, on the back of persistently low domestic inflationary pressure in many countries ~~alongside relatively stable global commodity prices.~~ **Prices of some commodities, including oil, have risen somewhat of late.**
The European Central Bank keeps interest rates close to zero, including the deposit rate below zero, and continues its asset purchase programme. At the same time, the US Federal Reserve gradually tightens its monetary policy, **embarking on a reduction of its balance sheet.**
In Poland, incoming data confirm continued stable growth in economic activity. ~~GDP growth in 2017 Q2 was close to that observed in the previous quarter~~. Growth ~~was~~ **is** still driven primarily by increasing consumer demand, supported by rising employment and wages, disbursement of benefits and very good consumer sentiment. ~~Investment growth rate was however still weak.~~ At the same time **a marked rise in construction and assembly output growth points to a probable recovery in investment**, ~~export growth slowed down, and as a result, the contribution of net exports to GDP growth turned negative~~.
The annual growth in prices of consumer goods and services remains at a moderate level. At the same time, while wage growth in the economy has picked up, core inflation is still low.
In the Council's opinion, in the following quarters inflation will remain moderate. This will result from **moderate price growth in the external environment of the Polish economy alongside** a gradual rise in domestic inflationary pressure stemming from improving domestic economic conditions, ~~alongside a decline in import price growth due to the expected stabilisation of energy commodity prices and low inflationary pressure abroad~~. In consequence, the risk of inflation running persistently above the target in the medium term is limited

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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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