

POST-MPC COMMENT

10 January 2018

Hawks losing their claws

The Monetary Policy Council kept the main interest rates unchanged, with the reference rate at 1.5%. The official MPC communique did not change significantly, with the most important part stating that inflation will remain close to the inflation target over the projection horizon, so the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic stability. Data released in December (lower inflation and wage growth) were generally supportive for the Council's rhetoric and did not provide hawks any new arguments. NBP president Adam Glapiński reiterated his claim that interest rates should remain on hold until the end of 2018 or even into 2019.

MPC's Eugeniusz Gatnar was present at the conference and he presented a rather dovish view, in contrast to his earlier rather hawkish remarks. According to Gatnar, December's inflation (2.0% y/y) was lower than expected and this encouraged him to revise view presented in November that rates could be hiked in 1Q18. Currently, Gatnar would like to wait until March's projection to see what is happening with the inflation trends. MPC member said also that CPI in 2.0-3.5% range would not worry him. Jerzy Kropiwnicki argued that labour market processes are moderate and contained, generating no risk for price growth. According to Kropiwnicki, wage growth is slower than productivity growth.

January's meeting clearly showed that the hawkish camp lost strength as president Adam Glapiński is really enthusiastic about the MPC policy and called it "wait and support". In our view more strong data on wage growth is likely to come in, while CPI breakdown is likely to change considerably into core-driven from energy-and-food-driven. Still, headline inflation is likely to stay close to the target, and this will be a strong argument not to hurry with rate hikes.

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

~~Global economy continues~~ The global economic conditions continue to recover. ~~Economic growth improve.~~ Data in the euro area ~~remains higher than in the previous year~~ signal further economic recovery, driven by an improvement in the labour market conditions, ~~favourable~~ very good sentiment of economic agents, and a ~~recovery in international~~ stronger world trade growth. Also in the United States economic conditions remain favourable. ~~At the same time, in~~ In China, ~~in turn,~~ incoming data indicate a slight slowdown in GDP growth.

Despite ongoing global recovery, inflation abroad remains moderate, on the back of persistently low domestic inflationary pressure in many countries. At the same time, prices of certain commodities, including oil, have risen in recent months.

The European Central Bank keeps interest rates close to zero, including the deposit rate below zero, ~~and continues to purchase while still purchasing~~ financial assets. The US Federal Reserve ~~started reducing~~ increased interest rates in December and continues to shrink its balance sheet ~~in October~~.

In Poland, ~~annual GDP growth accelerated in 2017 Q3~~ incoming data point to 4.9%. ~~continued good economic conditions.~~ Growth ~~was still~~ continues to be driven primarily by consumer demand, supported by rising employment and wages, disbursement of benefits and very good consumer sentiment. ~~Gross fixed capital formation also picked up in 2017 Q3, mainly on the back of a rise in public investment, while the corporate investment growth rate remained negative. The acceleration in GDP growth was fuelled by a significantly higher export growth rate. This is accompanied by a recovery in investment, mainly in the public sector. Growth in economic activity is also supported by strong external demand, reflected in significant exports growth.~~

Annual consumer price growth ~~rose in November to 2.5%. The main factor behind~~ declined and stands at a moderate level. ~~At the rise in inflation- same time – although wage growth is high food price growth and markedly higher~~ faster than in the previous years energy price growth. ~~Core quarters – core inflation net of food and energy prices remains low. Wage growth in national economy remained stable in 2017 Q3 and the growth in unit labour costs in national economy declined, despite a rise in wage growth in the enterprise sector.~~

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In the Council's assessment, favourable economic conditions in the Polish economy will continue in the next quarters. Yet, ~~it may be expected that~~ GDP growth will ~~decelerate slightly~~ probably be lower than in the ~~following years~~, second half of 2017. Taking into account the ~~present~~ current information, the Council judges that inflation will remain close to the inflation target over the projection horizon. As a result, the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic stability.

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