Bank Zachodni WBK
Grupa Santander

POST-MPC COMMENT

7 February 2018

Lower chances for rate hikes in 2018

The Monetary Policy Council kept the main interest rates unchanged, as broadly expected, with the reference rate at 1.5%. The official MPC communique remained almost the same as in previous month, with key fragments saying that inflation should remain close to the central bank's target and that current level of interest rates is supportive for keeping economy on the path of balanced growth and favourable for macroeconomic stability.

At the post-meeting press conference the NBP president Adam Glapiński said that his earlier comments and interviews were misinterpreted, as he never intended to comment about monetary policy outlook beyond 2018. He still claims that there should be no reason to hike interest rates until the end of 2018 but he thinks it is too early to talk credibly about 2019. Asked about conditions that could force monetary policy decisions the NBP president flagged economic situation in euro zone, faster policy tightening by the ECB, and the situation on the domestic labour market. As regards the latter, neither Glapiński nor other MPC members seem to be concerned about the current trends. Jerzy Osiatyński (perceived as moderate member) said that a revival of investments in the private sector should boost productivity growth, so he is less concerned about the wage acceleration than before. Łukasz Hardt (perceived as hawk) agreed, adding that even if productivity growth does not accelerate, the pass through from wages to inflation is not obvious. In his view, the probability of keeping rates unchanged until the end of this year has increased after recent data releases (for example, December's core inflation).

Summing up, the central bank is signalling clearly that interest rate hikes before the end of 2018 are becoming less and less likely (even hawkish MPC members' views are converging to those presented by Glapiński). Next month the new inflation projection will be released and in our view it may show even higher path than before (which, to remind you, showed core inflation approaching 3% at the end of 2019). However, after such clear change in the MPC members' views towards more dovish we doubt it could spark a serious discussion in the central bank about a need to hike rates. Especially that our forecast shows a drop in the headline CPI growth to 1.8-1.7% y/y in January-February 2018, which will give the Council even more arguments for complacency. We think that CPI zig-zagging in a horizontal trend below the 2.5% target for the better part of this year will give the MPC good enough argument to keep monetary policy on hold until the very end of 2018.

(Please see the comparison of this month's MPC statement to the previous one on the next page)

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

The global economic conditions continue to improve~~. Data in~~ **markedly. In** the euro area**, GDP data** signal further economic recovery, driven by an improvement in the labour market conditions, ~~very good~~ **rising** sentiment of economic agents, and a stronger world trade growth. Also in the United States economic conditions remain favourable. In China, in turn, ~~incoming data~~ ~~indicate~~ **following** a ~~slight slowdown~~ **stabilization** in GDP growth~~.~~**, in 2017, a further gradual slowdown is anticipated**.
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. **This has been accompanied by a fall in agricultural commodity prices**.
The European Central Bank keeps interest rates close to zero, including the deposit rate below zero, while still purchasing financial assets. ~~The~~ **In turn, the** US Federal Reserve ~~increased~~ ~~interest rates in December and~~ continues ~~to shrink~~ **a gradual reduction of** its balance sheet~~.~~**, signalling further interest rate increases in the future**.
In Poland, incoming data point to continued good economic conditions. **According to a preliminary estimate, GDP growth in 2017 stood at 4.6%.** Growth ~~continues to be driven~~ **is still** primarily ~~by~~ **driven by domestic demand, including** consumer demand, supported by rising employment and wages, disbursement of benefits and very good consumer ~~sentiment~~ **confidence**. This is accompanied by a recovery in investment, mainly in the public sector. **2017 Q4 probably also saw a rise in gross fixed capital formation in the enterprise sector.** Growth in economic activity is ~~also~~ **additionally** supported by strong external demand, reflected in ~~significant~~ **the positive contribution of net** exports **to GDP growth.**
~~Annual~~ **Despite the acceleration in economic growth, annual** consumer price growth ~~declined and stands~~ **continues to run** at a moderate level. **In 2017, average annual inflation amounted to 2.0%.** At the same time – although wage growth ~~is faster than in the previous quarters~~ **in enterprises increased** – core inflation net of food and energy prices remains low.
In the ~~Council's~~ **Council's** assessment, favourable economic conditions in the Polish economy will continue in the next quarters. Yet, GDP growth **in 2018** will probably be **slightly** lower than in the second half of 2017. Taking into account the 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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