Bank Zachodni WBK
Grupa Santander

POST-MPC COMMENT

7 March 2018

Food for doves

The Monetary Policy kept interest rates unchanged, which was no surprise for the market. The new projection showed a lower path of CPI and a higher path for GDP. The governor Adam Glapiński admitted that given the projection there were no reasons to change rates even until the end of 2020, at the same time making a remark that he is unwilling to state anything going so far into the future. We think that interest rate hikes this year are highly unlikely, but the policy tightening cycle may begin earlier than suggested by the NBP head – probably in mid-2019 and will be triggered by mounting inflationary and wage pressure and the start of interest rate hikes by the ECB.

The Monetary Policy left rates unchanged, and it was no surprise for the market. The statement shows little change vs. the previous one. The main message is still that the current level of rates is optimal and will serve well the economy. In the Council's view, inflation is still moderate, despite further acceleration of GDP, and core CPI is low despite faster wage growth.

As we anticipated, the new CPI projection was lower than the previous one, drawn in November. Inflation forecast was lower even despite the fact that GDP projection was revised up significantly. In 2020, covered for the first time by the projection, inflation is to centre around 3%, but the statement still calls it a path close to the 2.5% target, so there is no need to adjust interest rates, according to the central bank.

At the post-meeting press conference the governor Adam Glapiński admitted that the new projections support no rate hikes until the end of 2020, even if he is unwilling to state something so far into the future. Another of his dovish remarks was that analysts are right to push forward their rate hike expectations. Other members present at the press conference, Grażyna Ancyparowicz and Jerzy Żyżyński agreed with the governor's view. The former expects an even better growth path than the projection, but still would not want to destabilize the positive situation with rate changes.

The MPC press conference further reinforced the dovish message sent by the Monetary Policy Council. Last month we have moved forward the expected timing of interest rate hike from 4Q18 to 1Q19 and now we feel that this moment may move even further away. However, we still believe that the MPC will start hiking interest rates earlier than suggested by the NBP governor Adam Glapiński. Possibly the first rate hike may take place in mid-2019 and will be triggered by mounting inflationary and wage pressure and the start of interest rate hikes by the ECB.

Inflation and GDP projections

	GDP growth				CPI inflation			
	Mar 17	Jul 17	Nov 17	Mar 18	Mar 17	Jul 17	Nov 17	Mar 18
2017	3.4÷4.0	3.4÷4.7	3.8÷4.6		1.6÷2.5	1.6÷2.3	1.9÷2.0	
2018	2.4÷4.5	2.5÷4.5	2.8÷4.5	3.5÷5.0	0.9÷2.9	1.1÷2.9	1.6÷2.9	1.6÷2.5
2019	2.3÷4.4	2.3÷4.3	2.3÷4.3	2.8÷4.8	1.2÷3.5	1.3÷3.6	1.7÷3.7	1.7÷3.6
2020	-	-	-	2.6÷4.6	-	-	-	1.9÷4.1

According to the NBP projections, the GDP and CPI growth will fall to within the ranges given above with probability of 50%.

(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 February statement)

The global economic conditions continue to improve~~ markedly. In the ~~**. The** euro area~~,~~ **data for** GDP ~~data~~ **in 2017 Q4** signal ~~further economic recovery,~~ **that the economy continues to grow faster than in previous years. This is** driven by an improvement in the labour market conditions, ~~rising~~ **good** sentiment of economic agents, and ~~a~~ stronger world trade growth. ~~Also in~~ **In** the United States**,** economic conditions **also** remain favourable~~.~~**, although GDP growth in 2017 Q4 slowed down slightly.** In China, in turn, ~~following a stabilization in~~ GDP growth **was relatively stable** in 2017~~, a further gradual slowdown is anticipated.~~

Despite **the** ongoing global recovery, inflation abroad remains moderate, on the back of persistently low domestic inflationary pressure in many countries~~.~~**, and lower than in the previous year global agricultural commodity prices.** At the same time, prices of ~~certain~~ **some other** commodities, including oil, ~~have risen in recent months. This has been accompanied by~~ **are higher than** a ~~fall in agricultural commodity prices.~~ **year ago.**

The European Central Bank keeps interest rates close to zero, including the deposit rate below zero, while still purchasing financial assets. ~~In turn, the~~ **The** US Federal Reserve**, in turn,** continues ~~a gradual reduction of~~ **to gradually reduce** 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,~~annual GDP growth in 2017 **Q4** stood at ~~4.6~~ **5.1**%. Growth is still primarily driven by domestic demand, including consumer demand, supported by rising employment and ~~wages~~ **an acceleration in wage growth**, disbursement of benefits and very ~~good~~strong consumer ~~confidence. This is accompanied by a~~ **sentiment. At the same time, 2017 Q4 saw a marked** recovery in investment~~, mainly~~**. The pickup in investment was primarily observed** in the public sector~~. 2017 Q4 probably also saw a rise in~~ **, although** gross fixed capital formation ~~in the enterprise sector.~~ **of enterprises probably increased as well.** Growth in economic activity is ~~additionally~~ **also** supported by strong external demand~~, reflected in the positive contribution of net exports to GDP growth~~.

Despite the acceleration in economic growth, annual consumer price growth continues to run at a moderate level. ~~In 2017, average annual inflation amounted to 2.0%.~~ At the same time – although wage growth ~~in enterprises~~ increased~~ – core~~ inflation net of food and energy prices remains low.

In the Council's assessment, **current data and the results of the projection indicate a** favourable **outlook for growth in** economic ~~conditions in the Polish economy will continue~~ **activity** in ~~the next quarters. Yet,~~ **Poland, despite an expected slight slowdown in** GDP growth in ~~2018 will probably be slightly lower than in~~ the ~~second half of 2017. Taking into account~~ **coming years. In line with** the ~~current information,~~ **projection, in** the ~~Council judges that~~ **monetary policy transmission horizon** inflation will remain close to the **inflation** target~~ over the projection horizon.~~**.** As a result, the **Council judges that the** current level of interest rates is conducive to keeping the Polish economy on ~~the~~ **a** sustainable growth path and maintaining macroeconomic stability~~.~~