

ECONOMIC COMMENT

11 April 2018

It's all like a dream

Polish MPC kept interest rates on hold, as expected (reference rate at 1.50%). The official statement remained very similar in tone to the previous month's. The tone of the press conference was even more dovish than before. NBP Governor Glapiński said the timing of possible interest rate changes moved even further away and even those MPC members who earlier saw risk for inflation from the tightening labour market now changed their view. At the same time, Glapiński downplayed suggestions that the next MPC decision could be a rate cut and suggested that if needed the central bank would seek other ways to stimulate economy. We still think that the Polish MPC will keep interest rates stable not only this year, but also until the very late 2019.

No surprise in Polish monetary policy. Interest rates remain unchanged and are likely to stay on hold for very long time.

The official post-meeting statement remained very similar in tone to the previous one. The central bank wrote that it sees GDP growth in 1Q18 at a similar level to the previous quarter, fueled by strong consumption, reviving investments and still good economic climate abroad. Investment growth was visible in both private and public sectors, according to the MPC.

The press conference confirmed that the last, lower-than-expected, inflation data made the MPC's stance even more dovish than before. The NBP Governor Adam Glapiński said that in his view the period when main interest rates can remain stable was extended to two years from now. He also added that those MPC members who earlier saw some risk for inflation from the tightening labour market now changed their view. Glapiński said that the possible timing of interest rate hikes was delayed so much that we may finally arrive to the point when the economic growth starts deteriorating and no policy tightening will be needed. However, asked if the next decision could be a rate cut he downplayed such possibility saying that the structure of Polish banking system makes such decision always very difficult (please recall that the MPC did not want to lower interest rates in 2016, despite slowing economic growth and prolonging deflation). NBP president suggested that when GDP growth deteriorates the central bank could think about other ways of stimulating economy than by lowering rates.

Adam Glapiński pointed to signals that the peak in global economic cycle is probably behind us and that German economy started slowing, but in his view this situation is still not very worrying for Poland. He also suggested that the next central bank's projection will show lower inflation and higher GDP growth than the one presented in March. In Glapiński's view current situation is so optimal that it seems that we are living in a dream.

Summing up, we leave our forecast unchanged: the Polish MPC will keep interest rates stable not only this year, but also until the very late 2019. We think the next decision will be a rate hike, as wage growth will finally prove higher than predicted by the central bank and it will eventually push inflation above the target. However, the central bank will remain very patient and it will not start the monetary tightening before it sees such scenario materialising in black and white.

(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 March statement)

Despite the ongoing global recovery, inflation abroad remains moderate, on the back of the persistently low domestic inflationary pressure in across many countries, and lower than in the previous year global. In addition, agricultural commodity prices. At the same time, prices of some other commodities, including oil, are higher still lower than a year ago-, whereas oil prices have recently slightly increased.

The European Central Bank keeps interest rates close to zero, including the deposit rate below zero, while still purchasing financial assets. The US Federal Reserve, in turn, raised interest rates in March and continues to gradually reduce its balance sheet, signalling further interest rate increases in the future. In Poland, the annual GDP growth in 2017 Q4 stood at 5.1%. Growth is still primarily driven by domestic demand, including consumer demand, 2018 Q1 was probably close to that recorded in the previous quarter. Economic growth is supported by rising consumption, fuelled by increasing employment and an acceleration in wage growth wages, disbursement of benefits and very strong consumer sentiment. At the same time, 2017 Q4 saw a marked recovery in investment. The pickup in investment was primarily is observed in, benefiting from the public sector, although gross fixed capital formation increasing absorption of enterprises probably increased as well. Growth in economic activity is also supported by strong external demand. Despite the acceleration in economic growth, annual EU funds, a favourable demand outlook and high capacity utilisation. The rise in investment outlays is observed both in public sector – mainly in local government units - and in corporate sector. Favourable economic conditions abroad continue to support domestic activity growth. Despite the relatively high GDP growth and wages rising faster than last year, consumer price growth continues to run at a moderate level. At the same time – although wage growth increased – has declined recently, accompanied by low inflation net of food and energy prices remains low.

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