

ECONOMIC COMMENT

16 May 2018

Rates still flat in 2020?

The MPC left rates unchanged as was broadly expected. The statement was even shorter than before. No significant changes inside. The Council still sees current rates level as adequate given the economic outlook, promoting macroeconomic stability and return of inflation to the 2.5% target. In the statement a hope is expressed that slowdown in the euro zone in 1Q is temporary. It is stressed again, that CPI remains moderate, and core inflation stays low despite the relatively high economic growth and wages rising faster than last year.

The press conference gave us an impression that the Council turned even more dovish than before. During the press conference governor Adam Glapiński extended his claim that rates will most likely stay unchanged through 2018 and 2019, to also cover 2020 - based on his intuition. He added this seems to be the mainstream view among the members. Zubelewicz and Osiatyński, also present at the press conference agreed. Zubelewicz added that this is absolutely against his view, and there should already have been monetary tightening, but many of the members strongly believe rate stability is a virtue - this is why in his view rates could stay flat even into 2020, unless there is a sudden negative shock. Osiatyński was very cautious making such far-reaching statements, mentioned the wage growth exceeding labour productivity, risks in some real estate segments, but in general did not oppose the governor's claim. He also said destabilizing factors would most likely come from abroad. Glapiński admitted there are no imbalances in the economy.

We still assume that inflation processes and wage pressure will intensify this year, but rates will stay unchanged until late 2019.

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

Global economic conditions remain favourable, despite a weakening in GDP growth in the major advanced economies at the beginning of the year. In the euro area, following a slowdown in GDP growth in 2018 Q1, which was probably of a temporary nature, incoming data signal the continuation of a relatively robust economic growth, despite somewhat weaker corporate sentiment. Economic conditions also remain favourable. Similarly, in the United States, economic conditions remain good, although monthly data point to a temporary slowdown of GDP growth in this country also weakened in 2018 Q1. In China, in turn, economic growth continues at a fairly stable pace for the past few quarters.

Despite the ongoing favourable global recovery economic conditions, inflation abroad remains moderate on the back of the persistently low domestic inflationary pressure across many countries. In addition, agricultural commodity prices are 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. At the same time, the US Federal Reserve raised interest rates in March and continues to gradually reduce its balance sheet, signalling further interest rate rises in the future.

In Poland According to GUS flash estimate, the annual GDP growth in Poland in 2018 Q1 was probably close to that recorded in the previous quarter, stood at 5.1%. Economic growth is supported by rising consumption, fuelled by increasing employment and wages, disbursement of benefits and very strong consumer sentiment. At the same time, This is accompanied by a marked recovery in investment is observed, benefiting from the increasing absorption of EU funds, a. Also 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 economic activity growth.

Despite the Notwithstanding relatively high GDP economic growth and wages rising faster than last year, consumer price growth has declined recently, accompanied by low inflation remains moderate. Inflation net of food and energy prices stays low.

In the Council's assessment, current data continue to point to a favourable outlook for economic activity growth in Poland, despite the expected slight slowdown in GDP growth in the coming years. In line with the available forecasts, inflation will remain close to the target in the monetary policy transmission horizon. As a result, the Council judges that the current level of interest rates is conducive to keeping the Polish economy on a sustainable growth path and maintaining macroeconomic stability.

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