ECONOMIC COMMENT

6 June 2018

Still no reason to change rates

MPC left rates unchanged in June, in line with expectations. The statement was shortened further, which we read as a signal that the internal consensus of the Council to keep rates stable for a long time is quite broad. CPI is still seen by the MPC as moderate and core inflation as low.

During the press conference, NBP governor Adam Glapiński stated that higher oil prices, wage growth and weaker zloty have not put upward pressure on inflation. In his view, July CPI projected path could be lower than the previous one and we read this remark as an attempt to add more dovish flavour to the press conference tone. Glapiński made a remark that wage growth has decreased recently, which is not what we saw in the data (corporate wages up from 6.7% y/y to 7.8% in April, more than expected). In his view, stable rates in the monetary policy horizon are obvious, unless there are shocks.

Eugeniusz Gatnar, considered a hawk, said he would consider a rate hike if inflation intensified, but there are no signs this could happen anytime soon, and wage pressure is weaker than he had expected.

We stick to our view that the next rate move may be a rate hike in late 2019.

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

Global economic conditions remain favourable. In particular, economic activity in the euro area is high, despite ~~a~~ some 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 suggest that economic situation continues to be favourable.~~ GDP growth in 2018 Q1. Similarly, in the United States, economic conditions remain good, ~~although~~ while incoming data suggest that a slowdown in GDP growth in ~~this country also weakened in~~ 2018 Q1 was temporary. In China, in turn, economic growth has continued at stable rates for the past few quarters.
Despite favourable global economic conditions, inflation abroad remains moderate on the back of persistently low domestic inflationary pressure across many countries. ~~In addition, agricultural commodity prices~~ At the same time, oil prices – even with a recent decline – are still ~~lower~~ significantly higher than a year ago~~, whereas oil prices have recently 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 continues to gradually reduce its balance sheet, signalling further interest rate ~~rises in the future~~ increases.
~~According to GUS flash estimate, the~~ In Poland, annual GDP growth in ~~Poland in~~ 2018 Q1 ~~stood at 5.1%.~~ was close to that recorded in the previous quarter. Economic growth is ~~supported~~ driven by rising consumption, fuelled by increasing employment and wages, disbursement of benefits and very strong consumer sentiment. This is accompanied by a further recovery in investment. ~~Also favourable~~ In 2018 Q1, also rising inventories were a significant factor supporting economic ~~conditions abroad continue to support economic activity~~ growth, while contribution of net exports was negative.
Notwithstanding relatively high economic growth and wages rising faster than ~~last~~ in the previous year, consumer price growth 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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