03 October 2018

Economic Comment

MPC: Short message

Piotr Bielski, +48 22 534 18 84
piotr.bielski@santander.pl

In line with expectations, the MPC did not change interest rates with the main refi rate still at 1.50%. The tone of the statement did not change either despite being shorter than the previous one. The press conference did not spur any doubts about the fact that majority of the Council's members does not see reasons to change course in the monetary policy and the interest rates should stay on hold at least until late 2019.

The MPC decision and press conference were not very exciting, again. The official press release has been shortened further (its Polish version fitted into one page for the first time ever), but its tone remained similar to previous ones. The Council is still optimistic about the growth outlook and is not worried about inflation, which is expected to stay close to the inflation target in the monetary policy horizon. Thus, central bankers see no reason to think about monetary tightening in a foreseeable future.

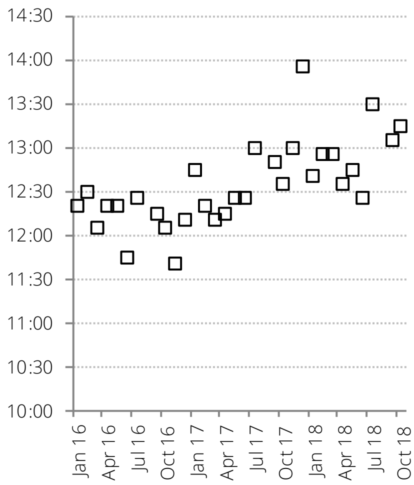
On the press conference the NBP governor Adam Glapiński traditionally repeated his declaration that interest rates should stay unchanged for a long time – until the end of 2019 or even early 2020. Glapiński said he would not to dare to speculate about more distant future, which is interesting, as – if I remember correctly – at the July's press conference he mentioned his rising conviction about possible rates stability until the end of 2020.

Referring to the strong growth of energy prices, the central bank president stressed that the Council is monitoring the process, but it affects the part of inflation which cannot be directly influenced by monetary policy. At the same time, core inflation (excluding food and energy prices) remains rather low and forecasts used by the Council do not point to anything worrisome. According to Glapiński, the next NBP projection (due in November) should not bring 'revolutionary changes'. We remind our readers that already the July the inflation projection was showing CPI growth going up to c3% y/y at the end of 2019 and such path was apparently not seen by the Council as a worrisome outlook. It will take an even stronger trigger to make the MPC discuss rate hikes.

Summing up, the outlook for the monetary policy in Poland has not changed. Interest rates are to stay on hold for at least a year from now and the timing for the hike will be likely determined by the economic situation. In our base scenario, we still expect first 25bp hike to be delivered in November 2019.

During the press conference there were many questions about possible changes in the monetary policy instruments, including extending the maturity of the open market operations, mentioned by Łukasz Hardt recently. However, the MPC did not provide any new details in this regard.

Release time of MPC decision



Source: Reuters, Bloomberg, Santander Bank Polska

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: skarb.santander.pl
Piotr Bielski + 48 22 534 18 87
Marcin Luziński + 48 22 534 18 85
Grzegorz Ogonek + 48 22 534 19 23
Konrad Soszyński + 48 22 534 18 86
Marcin Sulewski + 48 22 534 18 84

MPC statement (indication of changes as compared to September statement)

Global economic conditions remain favourable. In the euro area, the economic situation continues to be favourable, despite slightly slower GDP growth than in 2017. In the United States, economic growth is higher than in the previous year, which confirms that economic conditions in this country are strong. In China, ~~economic~~ activity growth has continued at a stable pace for the past few quarters.
~~Despite favourable global economic conditions, inflation abroad remains moderate. At the same time, an increase in oil prices in the recent months has driven up inflation indices in many countries.~~ **Since the beginning of the year, global energy commodity prices, including those of oil, have risen substantially. This has contributed to higher inflation in many countries. At the same time, core inflation in the external environment of the Polish economy, including the euro area, remains moderate, despite continued strong economic conditions.**
The European Central Bank keeps interest rates close to zero, including the deposit rate below zero. At the same time, the ECB continues to purchase financial assets, although it ~~has announced a reduction in~~ **is reducing** the scale of **the** purchases ~~from October 2018~~ and ~~the~~ **has announced its** termination ~~of the programme by~~ **until** the end of the year. The Federal Reserve ~~continues to gradually tighten monetary policy~~ **raised interest rates in September while continuing the gradual reduction of its balance sheet**.
In Poland, ~~the 2018 Q2 GDP~~ **incoming** data point to ~~high~~ economic **conditions remaining strong. GDP** growth~~.~~ ~~It~~ is driven by rising consumption, fuelled by increasing employment and wages, disbursement of benefits and very ~~strong~~ **high** consumer sentiment. This is accompanied by a rise in investment~~, both in the public sector and among big enterprises. In 2018 Q2, exports picked up markedly, leading to a positive contribution of net exports to GDP~~. **Activity** growth **is also supported by favourable economic conditions abroad**.
Notwithstanding high economic growth and wages rising faster than in the previous year, consumer price growth remains moderate. The slightly higher annual CPI ~~rate~~ than in 2018 Q1 reflects mainly the growth in fuel prices. At the same time, inflation net of food and energy prices continues to be low.
In the Council's assessment, current information ~~point~~ **points** to a favourable outlook for economic growth in Poland, despite the expected slowdown in GDP growth in the coming ~~years~~ **quarters**. 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.

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw. Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.