05 December 2018

Economic Comment

MPC keeps calm

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In line with expectations, the MPC kept interest rates unchanged with the main policy rate at 1.50%. The statement did not change much and the NBP President repeated the pledge to keep rates stable until the end of 2019. Overall, there is no change in the MPC policy outlook, in our view. Interest rates are going to stay on hold at least until the very end of 2019, and maybe even longer (if, for example, economic slowdown is deeper than expected and/or inflation fails to pick up visibly next year).

In line with expectations, the Monetary Policy Council (MPC) kept interest rates unchanged with the main policy rate at 1.50%.

The official communique has not changed much as compared to previous months, underscoring that inflation in 2019 may be elevated due to higher energy prices, i.e. the factor beyond the impact of monetary policy, but in the medium run inflation should be near the target, partly due to expected economic slowdown.

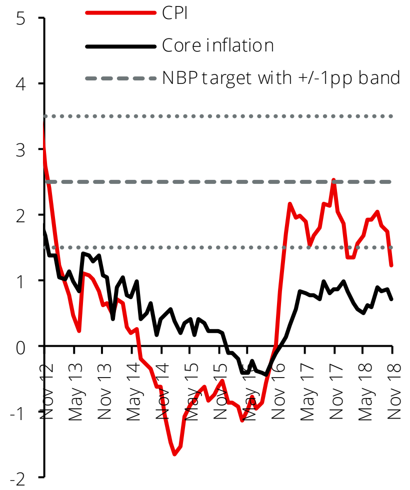
The NBP governor Adam Glapiński said at the press conference that the MPC still holds the wait-and-see mode and he repeated his pledge that rates should remain on hold until the end of 2019. Asked about 2020 he denied to answer clearly, pointing to too high uncertainty. He noted, however, that flash November inflation was lower than forecast and that the global oil and food prices declined significantly, which is positive for inflation outlook. He also said that the MPC keeps calm as there is no formal reason for the MPC to act as long as inflation is within the tolerance band around the target. Glapiński said the central bank will have more clarity about inflation outlook in January after getting information about the energy price hikes and their impact on CPI.

Commenting the (unsuccessful) motion to hike rates filed in November Glapiński said it was an 'exotic' proposal, given the tone of the discussion and argumentation at the MPC meeting. It seems to confirm our guess that the motion possibly had the support of one or at most two MPC members (out of ten).

Summing up, absolutely no change in the MPC policy outlook. Interest rates are going to stay on hold at least until the very end of 2019, and maybe even longer (if, for example, economic slowdown is deeper than expected and/or inflation fails to pick up visibly next year).

Other MPC members present at the conference (Ancyparowicz, Sura) said they strongly support the NBP Governor policy and his actions, also related to the recent request to block media articles about NBP Governor's links to the dismissed KNF Head. The NBP president said it is not his intention to block the freedom of expression, but the central bank has to defend its reputation due to its high significance.

CPI and core inflation vs NBP target



Source: GUS, NBP, Santander Bank Polska

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

Global economic conditions remain favourable, although ~~signs of~~incoming data suggest a weakening ~~have appeared~~ in some economies. In the euro area, GDP growth declined in 2018 Q3, and ~~some indicators of~~incoming data indicate a gradual economic ~~conditions deteriorated. At the same time, in~~slowdown. In the United States~~ growth has picked up slightly, which confirms~~, GDP data for 2018 Q3 confirmed that economic conditions in this country are still very strong. In turn, in China activity growth is gradually slowing~~ down~~.
~~A rise in~~Heightened uncertainty about the global economic outlook ~~contributed to~~ persists, which has an adverse effect on the prices of some ~~weakening of sentiment~~assets in the international financial markets. ~~Concurrently, energy commodity~~At the same time, global oil prices have ~~decreased slightly, following their previous sharp rise. The relatively high level of these prices continues to add to inflation~~fallen sharply in the recent period.
Inflation is still elevated in many countries~~.~~ due to the earlier increase in energy prices. At the same time, core inflation in the~~ external~~ environment of the Polish economy, including the euro area, remains moderate.
The European Central Bank keeps interest rates close to zero, including the deposit rate below zero. ~~Alongside that~~At the same time, the ECB continues to purchase financial assets, although it has ~~reduced the scale of the purchases and has~~ announced ~~their~~the termination of the purchases by the end of the year. The Federal Reserve ~~continues to gradually tighten monetary policy~~kept interest rates unchanged in November, after another interest rate hike in September.
In Poland, ~~incoming~~ preliminary GDP data for 2018 Q3 point to a strong economic conditions~~ remaining strong, although in 2018 Q3 GDP growth was probably lower than in the first half of the year.~~. GDP growth is still driven by rising ~~consumption,~~ – albeit at a slightly lower rate than in the previous quarters – consumption, that is fuelled by increasing employment and wages as well as very high consumer sentiment. ~~This is~~ In 2018 Q3, this was accompanied by a marked rise in investment. Amid relatively high growth of domestic demand and the weakening of economic conditions in Poland's external environment, net exports had a negative contribution to GDP growth.
Notwithstanding relatively high economic growth and wages rising faster than in the previous year, annual consumer price growth has declined and remains moderate. At the same time, inflation net of food and energy prices continues to be low.
~~The Council became acquainted with the results of the November projection of inflation and GDP, prepared under the assumption of unchanged NBP interest rates. In line with the November projection based on the NECMOD model, there is a 50-percent probability that annual price growth will be in the range of 1.7-1.9% in 2018 (against 1.5- 2.1% in the July 2018 projection), 2.6-3.9% in 2019 (compared to 1.9-3.5%) and 1.9-3.9% in 2020 (compared to 1.7-3.9%). At the same time, annual GDP growth – according to this projection – will be with a 50-percent probability in the range of 4.4-5.2% in 2018 (against 4.0-5.2% in the July 2018 projection), 2.7-4.4% in 2019 (compared to 2.8-4.7%) and 2.3-4.2% in 2020 (compared to 2.4-4.3%).~~
In the Council's assessment, current information ~~and the results of the projection point~~points to a relatively favourable outlook for economic conditions in Poland, although a gradual slowing in GDP growth is expected in the years ahead. In ~~line with the projection,~~ 2019 inflation ~~in 2019 will probably exceed 2.5%, boosted, among others,~~might be increased by ~~a rise in~~rising energy prices~~ remaining~~, i.e. factor beyond the ~~impact~~control of monetary policy~~, but will remain within a band for deviations from the target~~. The scale of energy price growth in 2019 will probably be limited by the fall in oil prices seen in recent months. In the medium term, in turn, the expected slowdown in economic growth will have a dampening effect on inflation. ~~In effect~~Consequently, in the monetary policy transmission horizon inflation will remain close to the target.
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.~~ The Council adopted the Inflation Report – November 2018.~~