Economic Comment

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MPC unimpressed by flash CPI

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In line with expectations, the MPC left interest rates unchanged and the statement did not differ significantly in the key points vs the previous one. The relatively slow economic growth abroad and uncertainty related to the future developments were stressed again. The rise of CPI inflation to 3.4% y/y was downplayed as caused by food, fuel and administered prices, and thus outside the scope of the monetary policy. The MPC stressed that the spike in CPI is temporary and is not expecting CPI to hit 4% in 2020. According to Governor Glapiński, the NBP staff forecasts just materialised a bit earlier so the expected path remained unchanged. Glapiński reiterated his opinion from November when he said that the next change of the interest rate could a cut rather than a hike. New MPC member Cezary Kochalski was present at the press conference, and he said there are no reasons to change rates. In our view, MPC will stick to its stable rate policy in 2020, even when it is surprised by CPI at the start of this year.

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

Global economic growth remains relatively low, although signs of a possible trade agreement between the United States and China have translated into a certain improvement in sentiment in the global economy. Despite this, uncertainty about the global outlook in the coming quarters persists. In the euro area, economic~~ activity~~ growth remains slow alongside the ongoing downturn in industry. In the United States, economic conditions continue to be relatively strong, although, like in many other economies, industrial activity ~~is declining~~remains weak. In China economic activity growth ~~continues to slow down~~is lower than in the previous years.
In ~~these conditions~~the recent period, oil prices have risen reflecting a certain improvement in sentiment about trade relations between the major economies as well as a significant increase of geopolitical tensions in the Middle East. Nevertheless, inflation in ~~many countries~~the environment of the Polish economy is running at a moderate level and in the euro area it is low.
The European Central Bank is keeping the deposit rate below zero, while conducting asset purchases and signalling the maintenance of loose monetary policy in the coming quarters. After the 2019 interest rate cuts~~ of recent months~~, the US Federal Reserve is keeping the rates unchanged.
In Poland, economic conditions remain good, despite ~~slower ~~a gradual slowdown in economic growth~~ in 2019 Q3~~. GDP growth is supported by stable consumption growth, fuelled by favourable labour market conditions, very strong consumer confidence and social benefit payments. ~~Investment continues to rise in 2019 Q3, albeit at a slower pace. ~~At the same time, ~~the contribution of net~~incoming data indicate further growth in investment and exports~~ to GDP growth remained positive~~, albeit slower than in ~~2019 Q3~~the previous quarters.
According to the GUS flash estimate, inflation stood at ~~2.6~~3.4% y/y in ~~November~~December 2019. Inflation ~~is~~in December was driven up by ~~elevated~~rising food ~~price growth, while being curbed by lower than a year ago energy prices, including~~and fuel prices. Alongside that, core inflation, after a rise in recent months partly resulting from higher services prices, has remained ~~moderate~~moderatete.
In the Council's assessment, the outlook for economic conditions in Poland remains favourable, and GDP growth, despite the expected decline, will continue at a relatively high level in the coming quarters. At the same time, there remains uncertainty about the scale and persistence of the slowdown abroad and its impact on domestic economic activity. Inflation – after a temporary rise in 2020 Q1 – will stay close to the target in the monetary policy transmission horizon.
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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