Bank Zachodni WBK

Post-MPC comment

No time for a pause

9 January 2013

The MPC decided to cut interest rates third month in a row by 25bps. Now the main reference rate is at 4.0%. The official statement and comments during the press conference suggest that a pause in the easing cycle may be approaching, but on the other hand it remains clear that the Council is still under strong influence of current macro data. The drop of inflation in coming months and deceleration of economic growth will be so strong that contrary to suggestions on possible break, the MPC may decide again – just like Marek Belka said in November – that there is no time for a pause. Reaction of the debt market to comments of the NBP governor was negative – yields surged by 15-30bps along the curve. Zloty was supported by such rhetoric – the EURPLN plunged to ca. 4.08.

The Monetary Policy Council cut rates by 25bps at its first meeting in 2013, in line with expectations. This was the third cut in a row of this scale, thus the reference rate is currently at 4.00%.

The official MPC statement was slightly shorter as compared to earlier months, but the essence remained similar to the November's one. Council maintained its opinion that the domestic economic activity is low, while weaker business climate is capping the wage and inflationary pressure, thus underpinning risk that inflation will slide below target (2.5%) in medium term. The sentence that the implemented cuts reduce the risk of inflation falling below the target in the medium term was reiterated.

The suggestion of possible further cuts was maintained, but it became more conditional – this time the Council "**does not rule out easing**" (rather than: "**will ease**") monetary policy, should the upcoming information confirm a protracted economic slowdown and risk of increase in inflationary pressure remains limited. NBP governor Marek Belka allotted much time during the press conference to elaborate on this small change in the statement. He stressed that one should interpret this fragment that "a certain round of rate cuts is coming to an end" and that a rate reduction in February "is likely and even probable but not unconditional". Anna Zielińska-Głębocka added that Belka's sentence about the end of easing cycle is not precise and it should be rather interpreted as an announcement of a "pause". When asked about a change in monetary policy bias Belka said that so far there is no change in this respect and any switch to neutral stance may occur only after analysis of first data for 2013.

Before today's MPC meeting we thought that the Council might, in some way, suggest a pause in the easing cycle. It seemed probable to us, that the pause could take place in February (in anticipation of March CPI and GDP projections). Nevertheless, both the MPC communique and comments during the press conference imply that the Council is rather mulling a break in consecutive months. The NBP's governor Marek Belka said straightly, that if the Council decides to cut rate in February, one would have to be aware that in the following month or months there may be a pause. Nevertheless, it seems to us that current macroeconomic data will remain crucial for the MPC decisions in upcoming months (it is interesting that neither in the statement nor in MPC members' comments, the upcoming update of NBP projections has been mentioned). This is confirmed by Marek Belka's words that "lower inflation will surely give more possibilities regarding movements of the interest rates". NBP governor admitted that December's macroeconomic data due in coming weeks will probably be "ugly" and inflation has probably plunged in December, approaching the NBP target. Consequently, we expect the MPC to cut rates by 25bps again in February and despite the hint on possible break in March, the NBP rates may be reduced further (when the MPC will see that January's CPI plunged below 2% and this may be strong factor encouraging more easing for some Council's members).

Maciej Reluga Chief Economist 022 586 8363 Email: ekonomia@bzwbk.pl

Piotr Bielski 022 586 8333
Marcin Luziński 022 586 8362
Agnieszka Decewicz 022 586 8341
Marcin Sulewski 022 586 8342

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

Incoming data show that global economic activity ~~continues to be~~ **was still** weak **in 2012 Q4**. ~~Although~~ economic **activity** ~~growth~~ in the United States ~~accelerated in 2012 Q3~~ **stayed moderate**, while ~~recession in~~ the euro area ~~persisted~~ **most probably remained in recession**. ~~At the same time, economic activity~~ **The economic slowdown observed over recent quarters** in ~~the largest~~ some **major** emerging economies ~~was relatively low appears~~ **to have decelerated**. ~~Even though weak global economic activity supports inflation decline, the previously observed increase in commodity prices, which continue to be relatively high, has contributed to inflation remaining elevated in many countries.~~ **Weak global economic activity is conducive to a decline in inflation in many countries.** ~~In the recent weeks, risk aversion in the global financial markets has stabilised and commodity prices have increased slightly.~~ **Global financial market sentiment has improved recently, supported by further monetary policy easing by the major central banks.**
~~A marked economic slowdown in Poland was confirmed by the data on GDP in Q3. A decline in domestic demand deepened, which was driven by decreasing investment and decelerating consumption growth. At the same time, the contribution of change in inventories to GDP growth remained negative. Net exports continued to be the main factor behind GDP growth, which was related to a further decline in imports amidst still positive exports growth~~. **In Poland,** Incoming monthly data, **and the economic sentiment indices show that the economic activity remained weak over the recent months. In particular, industrial and construction output decreased in November, whereas the annual growth of retail sales in real terms continued to run only slightly above zero.** ~~including the persistently slow growth in industrial production and retail sales, as well as a decline in the construction output, indicate that at the beginning of 2012 Q4 activity remained low. Weaker business conditions are accompanied by a deteriorating situation in the labour market. In 2012 Q3, employment growth in the economy, including the corporate sector, slowed down. At the same time, the unemployment rate increased.~~ **Furthermore, labour market figures confirm an economic slowdown. November saw a continued decline in the corporate sector employment accompanied by a persistently slow growth in wages and unemployment rate continuing to rise.** ~~Slower employment growth and higher unemployment rate contributed to wage growth deceleration. Simultaneously, in the recent months lending to households continued to weaken, including a further decline in the volume of consumer loans. Growth in corporate loans slowed down as well.~~ **Over the recent months, both household and corporate lending growth continued to weaken.**
In October, CPI inflation decreased and amounted to ~~3.4%~~ **2.8%**, ~~while remaining above~~ **being close to** the NBP's inflation target of 2.5%. At the same time, **both** ~~most of the~~ core inflation measures, as well as producer price growth continued to decline, which confirms weakening of demand and cost pressures ~~in the economy~~. Declining inflation was accompanied by lower inflation expectations of households.
In the opinion of the Council, incoming data confirm a considerable economic slowdown in Poland, which results in limited wage and inflationary pressures. At the same time, the Council assesses that GDP growth will remain moderate in the coming ~~years~~ **quarters**, which poses a risk of inflation ~~declining~~ **running** below the NBP's inflation target in the medium term. Therefore, the Council decided to lower the NBP interest rates **further**. The decrease in the interest rates should support economic activity and thus reduces the risk of inflation falling below the target in the medium term.
The Council does not rule out further monetary policy easing should the incoming information confirm a protracted economic slowdown, and should the risk of increase in inflationary pressure remain limited, ~~the Council will further ease monetary policy.~~

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Treasury Division. Economic Analysis Unit. ul. Marszałkowska 142. 00-061 Warsaw. Poland. phone +48 22 586 83 63. email ekonomia@bzwbk.pl. http://www.bzwbk.pl