

# Post-MPC comment

## No major changes

10 April 2013

After five consecutive MPC meetings delivering rate cuts (cumulatively by 150 bp), the Council decided today to keep monetary policy parameters unchanged. The statement and press conference sent similar message as in March. The President Marek Belka said that medium-term growth path expected by the MPC did not change, monthly data on output and sales did not surprise, while 4Q12 GDP figure was better than forecast. During the conference it was emphasised that in decision-making process the medium-term inflation prospects will be more important than the very low CPI readings in the following months. Overall, we do think that after today's meeting we are getting closer to a rate cut. What is important, President Belka said that ultra-low interest rate lead to significant economic imbalances, which the NBP would like to avoid. Therefore, it seems that aggressive monetary easing priced-in by the market is not fully justified.

The Monetary Policy Council decided to keep main interest rates on hold, which was in line with expectations, and thus did not trigger a significant market reaction. However, the EURPLN fell after the decision by PLN0.02 and market interest rates inched up a little. The release of the official statement and the press conference caused slight strengthening of the interest rate market.

The key sentence of the statement reads: *"The Council's decisions in the following months will depend on the assessment of the incoming data with regard to the probability of inflation remaining markedly below the NBP inflation target in the medium run and regarding economic activity"*. Thus, the MPC did not decide to repeat the sentence from the previous communique, saying that *"considerable monetary policy easing in recent months and at the March meeting will allow inflation to run close to target in the medium term and at the same time supports recovery of the Polish economy"*. Such a change should not be surprising in the light of recent data from the economy. The MPC has left open a possibility of interest rate cut, making it conditional on the new data to be released. "We have never bolted the door for rate cuts" – was said today during the press conference.

Answering the question on the possibility of a rate cut at next meetings NBP President Marek Belka underlined that this will be determined by the **medium-term inflation outlook** and stressed that data on current inflation (CPI likely to fall below 1% soon) will not be crucial. Data from real economy will be more important as they will also determine medium-term outlook for inflation. The NBP Governor confirmed the MPC stays in the "wait-and-see" mode and the statement does not promise more rate cuts. Making a remark on information that emerged during the past month, Belka pointed particularly to lower-than-expected data on CPI, stronger zloty (after temporary depreciation), data from real economy (industrial output and retail sales) not very surprising and better than predicted GDP for 4Q2012. Regarding the path of economic growth presented in the last NBP projection, central bank governor said **"there are no significant changes"**, though he noticed there was an inflow of some negative news from the euro zone. An additional element that can be taken under consideration by the MPC will be the lack of VAT reduction at the beginning of 2014. This may influence the inflation path next year, but on the other hand, it may hamper consumption.

All in all, the MPC repeated roughly the message from the previous month. In March it was announced that the medium-term economic outlook would have to change to encourage the majority of the MPC to cut rates further. Today's statement and the press conference show that (so far) this is not happening. So, if the MPC keeps its word and does not bow to the pressure of data showing very low inflation in the short run, and the scenario of gradual revival of the economy materialises, then there may be no more rate cuts. Consequently, in our opinion there is an upward risk to current market expectations pricing-in 50bps rate cut in 6-month time.

The MPC confirmed that NBP's profit for 2012 reached PLN5.5bn and 95% of this amount will be transferred to the state's budget. This should help to cover the shortfall in tax incomes (we estimate this to be PLN18bn) though as we mentioned already a few times, this may not be sufficient. We still see risk of amendment to this year's budget.

**Maciej Reluga Chief Economist** 022 586 8363

Email: ekonomia@bzwbk.pl

**Piotr Bielski** 022 586 8333

**Agnieszka Decewicz** 022 586 8341

**Marcin Luziński** 022 586 8362

**Marcin Sulewski** 022 586 8342

**Fragments of the MPC statement (indication of changes as compared to March's statement)**

**Despite a gradual improvement**, incoming data show that the global economic activity remains low. In 2012 Q4, economic growth in the United States came to a halt, while the euro area remained in recession. GDP declined in all major euro area economies, including Germany. In the euro area, recession probably continued into 2013 Q1, although the situation varied across countries. In Germany, following a decline in GDP in 2012 Q4, economic activity rebounded at the beginning of the year; nevertheless, corporate sentiment has deteriorated most recently. In other major economies of the euro area, recessionary trends persisted. In contrast to that, incoming data point to acceleration in economic growth in the United States, supported by improving labour and real estate markets. At the same time, economic growth in some major emerging economies probably accelerated **increased slightly**. In recent months, economic activity in several developed economies showed some signs of improvement.

In Poland, the GDP data confirmed that in 2012 Q4 there was a marked economic slowdown **growth in 2013 Q1 probably remained low**. Weakening consumer demand was accompanied by slower decline in investment. Economic growth continued to be supported by a positive, albeit somehow lower than in the previous quarter, contribution of net exports. Incoming data point to still low economic growth in early 2013. **This is indicated by a decline in industrial and construction output observed in the first months of 2013, amidst a merely marginal increase in retail sales. Low economic activity in 2013 Q1 is also reflected in low levels of business climate indicators.** Weak economic activity in the first months of 2013 was accompanied by falling employment in the corporate sector and rising unemployment, which ~~holds back~~ **continued to constrain** wage growth. **While a certain increase in annual wage growth in February was registered in the corporate sector, this may have largely resulted from statistical base effects.** At the same time, lending – both to the corporate and household sector – remained low.

In January ~~February~~, CPI inflation declined more than expected **decreased again**, reaching 1.3% y/y. According to the preliminary data, CPI inflation was 1.7% y/y, running i.e. a level **markedly** below the NBP inflation target of 2.5%. **There was also a decline in core inflation measures remained low**, which confirms ~~limited~~ **a weak** demand pressure **prevailing** in the economy. At the same time, household inflation expectations decreased further. **This was accompanied by a further decline in inflation expectations of households and enterprises.**

In the opinion of the Council, incoming data confirm ~~persistently~~ low economic growth in Poland, **as well as** no wage pressure and low inflationary pressures. Economic activity may gradually improve in the coming quarters. However, GDP growth will probably remain moderate, which will continue to contain inflationary pressure. ~~Such an assessment is supported by the March projection of inflation and GDP. Considering the risk of inflation running below the NBP inflation target in the medium term, the Council decided to lower the NBP interest rates further. The March decision complements the monetary policy easing cycle commenced in November 2012.~~

~~In the opinion of the Council, considerable monetary policy easing in recent months and at the March meeting will allow inflation to run close to target in the medium term and at the same time supports recovery of the Polish economy. The Council decided to keep the NBP interest rates unchanged. The Council's decisions in the following months will depend on the assessment of the incoming data with regard to the probability of inflation remaining markedly below the NBP inflation target in the medium run and regarding economic activity.~~

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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>