Bank Zachodni WBK

# Post-MPC comment

## MPC maintains dovish monetary policy

6 February 2013

**In line with expectations, the MPC cut interest rates by 25bps, with reference rate falling to 3.75%. This was a fourth rate cut in a row. In our view the Council will decide to trim rates further in March. The upcoming data from the real economy, persistent downward trend of inflation and March projections of CPI and GDP will justify such a decision. What is more, we think that the March projection will be crucial for the NBP interest rates in a longer horizon. We do not rule out that the Council may decide to adopt the "wait-and-see" mode, in order to monitor the upcoming data. In reaction to the statement, especially to the words of the NBP governor Marek Belka, bond yields climbed, while the zloty strengthened slightly (but temporarily).**

The Monetary Policy Council cut the main interest rates by 25bps, with reference rate falling to 3.75%, in line with our expectations. This was a fourth rate cut in a row – since the beginning of the cycle (which started in November 2012) the rates have fallen by 100bps.

In the communiqué the Council acknowledged the low activity in global economy and in Poland. As expected, 4Q2012 brought further deceleration of economic growth, with further weakening of consumer demand and limited decline of investments. Moreover, the incoming data confirm a marked weakening of domestic economic activity, which puts a cap of wage and inflationary pressures. During the press conference the NBP governor Marek Belka stressed that there was no major deterioration of business climate in 4Q2012. He added that in the assessment of the Council "the GDP growth will remain moderate in the coming quarters, and therefore risk of inflation running below the NBP's inflation target in the medium term persists".

The Council decided to slightly change its communication about interest rate prospects in the upcoming months, and skipped the sentence reading: "the Council does not rule out further monetary policy easing should the incoming data confirm a protracted economic slowdown and should the risk of increase in inflationary pressure remain limited". Currently the Council is making future decisions conditional on "the assessment of the incoming data on economic developments and inflationary pressure, including the results of the March NBP macroeconomic projection". During the press conference the NBP governor Marek Belka said that this change does not mean a change in monetary policy bias, which remains dovish. He added that it is not a suggestion that "there will be no cut in March. This means that all options are possible". Thus, the March CPI projection will be crucial for further Council decisions and it can even make them adopt a "wait-and-see" mode.

To sum up, in our opinion a rate cut in March is quite likely. Weak data from real economy, continuation of downward trend of inflation (CPI below 2%YoY in January) together with new projection of CPI and GDP that will be presented to the Council next month will justify further easing of monetary policy. After a rate reduction in March (the main NBP rate will reach 3.50%, the level to which the MPC cut rates in response to crisis in 2009) we expect the Council may adopt "wait-and-see" mode (this was suggested by the NBP governor at the press conference) in order to monitor the inflowing data and have some time to think what to do next.

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

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| Incoming data show that global economic activity **remains low** ~~was still weak in 2012 Q4~~. **In 2012 Q4,** economic activity in the United States ~~stayed moderate~~ **declined**, while the euro area most probably remained in recession. **At the same time, recently some business indicators for developed countries have slightly improved.** ~~The economic slowdown observed over recent quarters~~ **There are also signs that** in some major emerging economies ~~appears to have decelerated~~ **economic growth accelerated somewhat**. Weak global economic activity is conducive to a decline in inflation in many countries. ~~Global financial market sentiment has improved recently, supported by further monetary policy easing by the major central banks.~~ |
| In Poland, incoming data, ~~and the economic sentiment indices show that the economic activity remained weak over the recent months~~ **including GDP data for 2012, show that – as expected – 2012 Q4 saw a further economic slowdown. The decrease in consumer demand was accompanied by a smaller decline in investment. Economic growth continued to be supported by a positive – albeit lower than in the previous quarter – contribution of net exports.** ~~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. Furthermore,~~ **The economic slowdown is also confirmed by data from the** labour market ~~figures confirm an economic slowdown~~. ~~November saw a continued decline in the corporate sector~~ **In December,** employment i**n the corporate sector still decreased** ~~accompanied by a persistently slow~~ **and wage** growth ~~in wages and unemployment rate continuing to rise~~ **remained low**. Over the recent months, both household and corporate lending growth continued to weaken. |
| In ~~November~~ **December**, CPI inflation decreased to ~~2.8%~~ **2.4%** y/y, ~~being close to the~~ **running at the level consistent with the** NBP inflation target (2.5%). At the same time both the core inflation measures and producer price growth continued to decline, which confirms weakening of demand and cost pressures. 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 quarters, ~~which poses a~~ **and therefore** risk of inflation running below the NBP's inflation target in the medium term **persists**. Therefore, the Council decided to lower the NBP interest rates further. The decrease in interest rates should support economic activity and reduces the risk of inflation ~~falling~~ **remaining** below the target in the medium term. |
| ~~The Council does not rule out further monetary policy easing should the incoming data confirm a protracted economic slowdown and should the risk of increase in inflationary pressure remain limited.~~ **Decisions of the Council in the following months will depend on the assessment of the incoming data on economic developments and inflationary pressure, including the results of the March NBP macroeconomic projection.** |



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