

# POST-MPC COMMENT

6 November 2013

## NBP rates stable till mid-2014

In line with a broad consensus and its own declaration, the MPC kept interest rates unchanged in November. Main refinancing rate is still at record low level 2.50%. What is important, the Council decided to extend the suggested period of stable interest rates „at least until the end of the first half of 2014”. It would be desirable to persevere in this declaration, therefore the first interest rate hike should be expected in July 2014 at the earliest. New projection of the central bank is more optimistic in terms of economic growth (GDP at ca. 3% in 2014 and above 3% in 2015), but the forecast of inflation remained low (below 2%). In our opinion, CPI next year will be higher and the MPC will start hiking rates in the third quarter of 2014.

The Monetary Policy Council kept interest rates unchanged, which was no surprise. In the statement two interesting elements should be noticed: the extension of the suggested period of stable interest rates and results of new GDP and CPI projections.

The key sentence of the statement says: **“Considering the current statistical data as well as the projection of GDP and inflation that confirm low inflationary pressure and the expected moderate economic recovery, the Council assesses that NBP interest rates should be kept unchanged at least until the end of the first half of 2014”**. This means that interest rates will most likely remain at historical low level for more than half a year. During the press conference, NBP President, Marek Belka said straightforwardly that “it is hard to imagine that within six months circumstances change to such an extent that the opinion of the MPC changes”. However, it was stressed that the promise is not unconditional in 100%. On the one hand, the MPC sees many advantages of not keeping the market uncertain as regards its future decisions – limited volatility of the FX and fixed income market, as well as positives for households from keeping rates stable for longer. On the other hand, the economic situation is stable and macro indicators change gradually and the MPC sees a risk of making a mistake (by announcing such a long period of stable rates) as very limited. It has to be stressed that this formal extension of the period of unchanged interest rates is in line with many media comments by MPC members in recent weeks. Nevertheless, we are a bit surprised. Well, it seems now that the Council will have to persevere in the declaration until the middle of the next year and thus the first rate hike can be expected only in July 2014, at the earliest. It does not mean that the Council will have nothing to do. The NBP Governor said at the press conference that the Council will work on defining and specifying “symptoms of changes in the economy, which could change their perception”.

As regards the new inflation and GDP projection prepared by the NBP Economic Institute, in line with our expectations path of both indicators (GDP and CPI) has been increased (detail in the table below). GDP growth is expected to approach 3% in 2014 and to exceed this level in 2015. Our forecasts are very similar. However, in the case of inflation, the projection is higher only moderately and 12M CPI maintains below the inflation target of 2.5% in the medium-term. As the NBP Governor suggested at the press conference, the new projection did not lead to intense discussions within the Council, which means that it is roughly in line with economic scenario assumed by the Council’s members. Details of the projection will be known only next week (12<sup>th</sup> November) and then we will see what are the drivers of growth acceleration and low inflation. It is worth to notice, however, that while Governor Belka said today that potential output growth in Poland is at least at 3% (“3% is a safe figure”), the previous Inflation Report showed this estimate at 2.6% for 2013-14. The new forecasts of GDP would mean that the output gap closes faster.

### Inflation and GDP projections in the subsequent *Inflation reports*

	GDP growth				CPI inflation			
	Nov 12	Mar 13	Jul 13	Nov 13	Nov 12	Mar 13	Jul 13	Nov 13
<b>2013</b>	0.5-2.5	0.6-2.0	0.5-1.7	1.0-1.5	1.8-3.1	1.3-1.9	0.6-1.1	0.9-1.0
<b>2014</b>	1.1-3.5	1.4-3.7	1.2-3.5	2.0-3.9	0.7-2.4	0.8-2.4	0.4-2.0	1.1-2.2
<b>2015</b>		1.9-4.4	1.6-4.2	2.1-4.5		0.7-2.4	0.7-2.4	1.1-2.6

According to the NBP projections, the GDP and CPI growth will fall in the ranges given above with probability of 50%.

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## Fragments of the MPC statement (indication of changes as compared to October's statement)

~~W~~ Despite some improvement, economic conditions in the global economy **Global economic activity** remained moderate in 2013 Q3. Economic activity indicators improved in the largest developed economies, including the United States and euro area. **In 2013 Q3, GDP growth in the euro area was probably similar to a quarter before, while growth in the United States was negligibly slower.** At the same time, **in a few** major emerging market economies, including China, saw persistently low — as for these countries — economic activity growth **stayed low as for these economies.** Moderate global economic activity ~~was~~ **has been** conducive to low inflation in many countries. Financial market sentiment improved somewhat, which was partially driven by the Federal Reserve postponing the quantitative easing tapering. **Following a temporary deterioration of sentiment due to uncertainty about fiscal policy in the United States,** prices of some financial assets ~~rose and exchange rates of emerging currencies, including the zloty, strengthened have risen.~~

In Poland, ~~the August data on industrial and construction output as well as on retail sales in 2013 Q3 confirmed that low, yet accelerating economic recovery growth remained relatively weak, although stronger than a quarter before. Simultaneously, the at the same time, improving in economic climate leading indicators suggests a possibility of the point to gradual recovery continuing in the into coming quarters to come.~~ In August 2013 the decline in **Gradual improvement in economic conditions is coupled with a minor increase in corporate employment was again narrowed (in annual terms), amidst a slight fall in yet it is still lower than a year ago.** the unemployment rate (in seasonal adjusted terms). However, unemployment persists at **is still** elevated level, which ~~supports~~ **contributes to** slow wage growth. Growth in lending to the private sector remains limited. In August **September,** annual growth in loans to enterprises and households ~~continued at a sluggish pace stayed low, whereas a gradual recovery was seen in while since mid-year consumer credit growth has been gradually gathering pace.~~

**In September,** CPI inflation ~~remained at edged down to 4.1% 1.0% y/y in August, i.e. remaining~~ markedly below the NBP inflation target (2.5%). At the same time, ~~most~~ core inflation measures **stabilized or** declined slightly, while inflation net of food and energy prices ~~remained stable.~~ **Annual growth in producer prices in industry continued to fall stayed negative.** Recent developments of inflation indices ~~confirm still weak demand and cost pressures in the economy. This is against the background of along with low inflation expectations, notwithstanding their certain increase in September confirm that demand and cost pressures in the economy remain low.~~

In the opinion of the Council, gradual economic recovery is likely to continue in the coming quarters, however, inflationary pressure will remain subdued. **November projection of GDP and inflation confirms this assessment.**

The Council decided to keep the NBP interest rates unchanged. ~~Given low inflation pressure and a moderate scale of the expected recovery, in the Council's assessment interest rates should be kept unchanged at least until the end of 2013, which will support return of inflation to the target in the medium term. In the opinion of the Council, lowering interest rates in the first half of 2013 and keeping them unchanged in the second half of the year supports recovery of the domestic economy, gradual return of inflation to the target and stabilisation in the financial markets.~~

**Considering the current statistical data as well as the projection of GDP and inflation that confirm low inflationary pressure and the expected moderate economic recovery, the Council assesses that NBP interest rates should be kept unchanged at least until the end of the first half of 2014.**