POST-MPC COMMENT

8 January 2013

March meeting will be more interesting

Today's meeting of the Monetary Policy Council did not shed any new light on the monetary policy outlook – interest rates remained on hold, the tone of the press conference and the statement did not change much. Apparently, the March meeting will be more interesting as the new GDP and CPI projections will be published then.

We sustain our forecast of first interest rate hike in the autumn, but we see a risk of even longer period of stable interest rates if the scale of inflation redound will be limited.

The Monetary Policy Council kept interest rates unchanged. The most important part of the MPC's statement was also left intact. The Council maintained the opinion that the NBP interest rates should remain on hold at least until the end of first half of 2014. In the MPC's view, reduction of interest rates in the first half of last year and keeping them at low level in subsequent quarters will support revival of domestic economy, gradual return of inflation towards the target, and stabilisation in financial markets. In the statement the Council noticed a continuation of gradual economic recovery (suggested by business climate indicators, growth of industrial output and retail sales, and some rebound in construction), which to a limited extent translates into improvement in the labour market situation (high unemployment is curbing wage and demand pressures in the economy), while inflationary pressure stays low.

All in all, similarly as last month, today's MPC meeting introduced little new information to the assessment of monetary policy prospects, and its result was easy to predict. The similar story refers to the press conference. Already at December's conference the NBP governor Marek Belka said he was not sure whether the MPC was ready to present in public the set of indicators, which could persuade the Council to change interest rates. At today's press conference Belka said that in the forecasting period inflation rate remains at a very low level, although he also pointed out that this low level comes to large extent from cost-side factors. MPC member Andrzej Kaźmierczak, adding to Belka's comment, said that inflation may approach 2% in June (1.8% to be precise) amid rising core inflation and economic growth accelerating to almost 4%. Well, such circumstances could make at least some MPC members think about interest rate hikes. The question is whether this would be majority, as Marek Belka stressed that such GDP growth forecast (almost 4%) is the result of Mr. Kaźmierczak's intuition, not a hint regarding the new NBP projections. Even Kaźmierczak himself added that as regards internal factors, the output gap is still negative, which implies lack of threats for inflation (at least in the horizon of first half of the year).

Today's meeting was the first one with Jerzy Osiatyński, the new MPC member. It is hard to judge the impact of his presence on the discussion (governor Belka refrained from such opinions). However, comments of Osiatyński presented recently suggest that after his access to the MPC, it may be harder to gather the majority for hiking interest rates.

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

Growth in global economic activity remains moderate. ~~In 2013 Q3, GDP growth accelerated slightly~~ **As business conditions** in the United States **have improved markedly, the Federal Reserve has decided to reduce the scale of quantitative easing starting from January 2014. At the same time**, ~~while in~~ the euro area ~~it slowed down to a level somewhat above zero~~ **is slowly recovering, yet the pace of the recovery is limited and highly diversified across member countries.** ~~At the same time, economic~~ **In turn,** activity ~~growth~~ in the ~~major~~ **largest** emerging economies **– despite some improvement –** continue~~d~~**s** to ~~run~~ **grow relatively slow** ~~at a low –~~ as for those countries ~~– level~~. Moderate growth in global economic activity ~~and decline in energy prices were~~ **is** conducive to inflation ~~decrease~~ **staying low** in many countries. ~~The monetary policy of major central banks remains highly expansionary. In November, the European Central Bank lowered its main policy rate, whereas other major central banks maintained the current scale of their monetary expansion.~~
~~In Poland, GDP data for 2013 Q3 confirmed the~~ **Data on domestic economic activity in November 2013 indicate a** continuation of ~~a~~ **the** gradual ~~economic~~ recovery **in Poland**. ~~After several quarters of declining, domestic demand increased somewhat in 2013 Q3, driven by rising consumption and a slight increase in investment. This was accompanied by lower positive contribution of net exports and still negative contribution of change in inventories to GDP growth. October saw a minor slowdown in the annual growth of~~ **In particular, data on** industrial output and retail **sales (in seasonally adjusted terms) suggest that activity in industry and retail sectors has remained on an upward trend**. **At the same time, decline in** construction and assembly ~~output continued to fall, albeit at a slower pace~~ **output has narrowed, which is indicative of some improvement in this sector**. ~~Yet,~~ **B**usiness climate indicators ~~suggest a~~ **also signal** further ~~gradual recovery in the coming quarters~~ **growth in economic activity**. ~~The gradual~~ **Ongoing economic recovery translates into an** improvement ~~in economic conditions is accompanied by fading negative trends in the~~ labour market **conditions only to a limited extent**. ~~According to the Labour Force Survey, in 2013 Q3 the number of persons working in the economy was slightly higher than a year before. This contributed to a small decline in the~~ **Employment growth remains too weak to bring down the still elevated** unemployment rate ~~in annual terms, which however remains elevated~~. ~~In 2013 Q3~~ **High unemployment reduces** wage ~~growth in the economy increased somewhat~~ **and demand pressures in the economy, while wage growth in the corporate sector remains low**. ~~Growth in lending to the private sector remains limited. In October, the annual increase in lending to enterprises and households persisted at a low level. However, since mid-2013 growth in consumer loans has been gradually gathering pace.~~
~~Demand and cost pressures in the economy remain low~~. CPI inflation **declined to 0.6%YoY** in ~~October~~ **November 2013** ~~fell to 0.8% y/y~~ (from ~~1.0%y/y~~ **0.8** in ~~September~~ **October**), continuing well below the **NBP** inflation target of 2.5%. This was accompanied by ~~persistently low~~ **a decrease in most** core inflation **indices**. ~~and a fall in~~ **At the same time,** producer prices in industry **continued to fall, which indicates low cost pressure in the economy**. ~~At the same time,~~ **I**nflation expectations ~~remained~~ **stayed** low **as well**.
Growth in lending to the private sector remains limited. In November 2013, the annual growth in corporate and household loans was still low. However, since mid-2013 growth in consumer loans has been gradually gathering pace.
In the opinion of the Council, gradual economic recovery is likely to continue in the coming quarters, however, inflationary pressures will remain subdued. Therefore, the Council decided to keep the NBP interest rates unchanged. The Council maintains its assessment that NBP interest rates should be kept unchanged at least until the end of the first half of 2014.
In the opinion of the Council, lowering interest rates in the first half of 2013 and keeping them unchanged in subsequent quarters supports recovery of the domestic economy, gradual return of inflation to the target and stabilisation in the financial markets.