

POST-MPC COMMENT

9 April 2014

Nothing exciting until July

The MPC's decision to keep interest rates on hold and to leave the official statement roughly unchanged was no surprise at all, as only one month ago the Council declared there should be no changes in monetary policy at least until the end of Q3. NBP President Marek Belka admitted at the press conference that if nothing special happens, the Council will not change the tone of the statement until July (i.e. until the release of new NBP projection). Thus, it seems we have two more unexciting MPC meetings ahead.

In line with expectations, the MPC kept interest rates unchanged at its April meeting. The tone of the statement also has not changed when compared to the March statement. This was no surprise at all, as only one month ago the MPC has extended its forward guidance until at least the end of the Q3-14 and no breaking macro data has emerged since then that could have altered substantially the GDP and CPI outlook. NBP governor, Marek Belka, said during the press conference that if nothing special happens, then one should not expect any changes in the MPC tone and its bias until July (when fresh NBP projections will be available). This means that there are two rather unexciting MPC meetings ahead, which outcomes are easy to predict.

At the same time, Belka reminded that numerous comments of the MPC members have recently indicated that the period of stable interest rates may be extended beyond the end of the 3Q14. This seems to be a clear suggestion, that in July the MPC may extend its forward guidance once again (probably until the end of 2014), provided that economic outlook does not change significantly.

NBP governor said during the press conference that a recession in Ukraine and sluggish growth in Russia, connected with possible trade sanctions, may have a downward impact on inflation and GDP growth. However, the influence of these disturbances on Polish economy shall not be tremendous. Belka admitted that a potential start of asset purchases program by the ECB may change the environment for the monetary policy in Poland – inflation might be tamed due to, among others, zloty's appreciation. He reminded, however, that on the other hand the US central bank is withdrawing its monetary stimulus and we may face a sooner-than-expected monetary policy tightening in the UK.

The NBP governor once again repeated that the MPC's statement does not suggest that the monetary policy may be eased – Poland's economy, according to central bank's forecasts, is vigorously gaining steam and in such environment cutting interest rates would be a typical pro-cyclical policy. And this, in Mr. Belka's opinion, would be a deadly sin.

We uphold our stance that NBP's official rates will remain stable till year-end, while at the beginning of 2015 the MPC will decide to hike rates. It will be justified by strengthening of economic growth and upward revision of inflation forecasts (in our opinion inflation rate will start rising faster than predicted in recent NBP's projection).

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

Growth in global economic activity remains moderate, although the economic situation varies across countries. In the United States, economic conditions are **relatively** favourable ~~despite signs of some weakening observed in the recent period. At the same time,~~ **while** the euro area has been experiencing a slow, yet somewhat limited recovery. Activity growth in the largest emerging economies remains low in comparison with their previous performance, **while in China there are signs of its weakening. Some of these economies have seen deterioration in business indicators in the recent period. Moderate growth in global economic activity is conducive to maintaining low inflation in many countries.**

Data on domestic economic activity confirm a continuation of the gradual recovery in Poland. In ~~the first months of 2014~~ **2013 Q4** economic growth was higher than in 2013 Q3. GDP growth was supported primarily by net exports. At the same time, domestic demand contribution to GDP growth increased. This was related to accelerating consumption and investment growth. The gradual recovery at the beginning of 2014 is indicated by a further growth in industrial output and retail sales in January 2014 **growth accelerated.** At the same time, growth in ~~In February~~ construction and assembly output was ~~negative~~ **increased as well. Yet, Activity growth in the subsequent quarters is signalled by favourable** business climate indicators ~~suggest that recovery will continue in the coming quarters.~~ The gradual economic recovery is **gradually being transmitted** ~~contributing into an improvement in~~ labour market conditions. According to the LFS, in 2014 Q4 the number of persons working in the economy was higher than a year before. This helped to reduce somewhat the ~~Signs of employment growth in the enterprise sector, as well as a decline in~~ unemployment rate, ~~which however remained elevated, have been observed. However, despite a slightly fall in February, the~~ unemployment rate ~~persisting~~ **remains at heightened an elevated levels, which restricts is hampering wage pressure in the economy growth.**

According to preliminary data, ~~In February 2014~~ CPI inflation ~~stood at~~ **amounted to** 0.7% in ~~January 2014,~~ thus remaining markedly below the NBP inflation target of 2.5%. ~~This was accompanied by a decline in Core inflation measures, which confirms that demand pressure continues to be weak also continued at a low level. In turn, weak cost pressure in the economy is manifested by a further drop in~~ **At the same, time** producer prices **declined further.** This is accompanied by low inflation expectations.

Lending **growth** to the private sector – while accelerating slightly – remains limited. ~~In particular, since mid-2013 there has been a gradual acceleration. However, the modest increase in mortgage loans and the further gradual revival in consumer loans. The past few months have seen a slight growth in housing and corporate loans from a low level. starts to be also accompanied by a~~ **recovery in lending to enterprises.**

In the opinion of the Council, gradual economic recovery is likely to continue in the coming quarters, however, inflationary pressures will remain subdued. ~~Such assessment is confirmed by the March projection of inflation and GDP.~~ Therefore, the Council decided to keep NBP interest rates unchanged. In the Council's assessment NBP interest rates should be kept unchanged for a longer period of time, i.e. at least until the end of the third quarter 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.