Bank Zachodni WBK
Grupa Santander

POST-MPC COMMENT

7 May 2014

Another “non-thrilling” conference

The MPC kept interest rates unchanged and left the tone of the official statement almost unchanged. The NBP president Marek Belka maintained his opinion that release of July’s NBP projections will be a good moment to consider a change in communication (i.e. to extend the *forward guidance* until the year-end), so we may expect that the MPC meeting in June will also be again a non-event for the financial market. We are anticipating that only at the year-end, when inflation starts rising and forecasts of accelerating economic growth reinforce, market expectations for interest rate hikes in 2015 will strengthen.

The Monetary Policy Council again kept main parameters of monetary policy unchanged – reference rate remained at all-time low 2.50%, where it was anchored in July 2013. This decision came in line with expectations, so it did not affect the financial market.

The tone of the official MPC’s statement also did not change significantly as compared to the previous one, which was also expected, as at the press conference in April the NBP governor had clearly suggested that the communication would not change before July, when new NBP projections will be released. This month Mr Belka repeated this declaration, suggesting once again (indirectly) that in July the MPC will probably extend its forward guidance till year-end. The NBP governor said that current communication strategy seems effective, but the MPC will not hold on to this strategy forever and at some point of time the Council will decide to depart from this approach. Still, it will not be quickly. In Belka’s opinion long term pledge in monetary policy is risky and less reliable if situation is getting unstable and unpredictable. Notwithstanding, in July the MPC is likely to communicate with the market still in the same way.

The MPC statement said that the Council expects continuation of the economic recovery amid very low inflationary pressure. Marek Belka admitted that experts’ forecasts that are provided to the MPC on monthly basis show a GDP growth path similar to the one presented in the last NBP projection, while short-term forecasts for inflation have been trimmed marginally. Belka added that it is difficult to assess the impact of the Russia-Ukraine conflict on the Polish economy, although he perceives this situation to be serious. Consequently, the uncertainty regarding further developments in the East make the MPC cautious about changing its views. At the same time, one cannot say that this crisis makes talks on rate hikes pointless as these may be triggered, among others, by unexpected changes in the financial market.

All in all, today’s MPC meeting did not bring any changes to the monetary policy outlook. At the end of the press conference, Marek Belka said that June’s conference is also likely to be “non-thrilling” and this supports our scenario of extension of the forward guidance until the end of the year in July. We still think that first rate hikes are likely in early 2015 in response to strengthening economic growth (fuelled by the domestic demand) and upward revision of the inflation forecasts.

ECONOMIC ANALYSIS DEPARTMENT:
ul. Marszałkowska 142. 00-061 Warszawa fax +48 22 586 83 40
email: ekonomia@bzwbk.pl Web site: http://www.bzwbk.pl

Maciej Reluga (Chief Economist)	+48 22 534 18 88
Piotr Bielski	+48 22 534 18 87
Agnieszka Decewicz	+48 22 534 18 86
Marcin Luziński	+48 22 534 18 85
Marcin Sulewski	+48 22 534 18 84

TREASURY SERVICES:

Poznań	+48 61 856 5814/30
Warszawa	+48 22 586 8320/38
Wrocław	+48 71 369 9400

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

Growth in global economic activity remains moderate, although the economic situation varies across countries. In the United States ~~economic conditions are relatively favourable,~~ **GDP growth slowed down in 2014 Q1, yet recent data have indicated an improvement in business conditions in the subsequent months. At the same time,** ~~the euro area has been experiencing a slow, yet somewhat limited recovery~~ **recovery in the euro area continues, albeit at a moderate pace**. In the largest emerging economies activity growth remains slow relative to previous performance, ~~while in China there are signs of its weakening~~ **including China, where it weakened in 2014 Q1.** 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~~ **in March,** industrial output and retail sales ~~growth accelerated~~ **continued to rise, yet slower than expected**. ~~In February~~ **At the same time,** construction and assembly output ~~increased as well~~ **picked up**. Business climate indicators **– despite some weakening in March** – still point to further activity growth in the coming quarters. **Gradual acceleration in economic activity is accompanied by moderate lending growth, both to firms and households.** The recovery is gradually translating into improvement of labour market conditions. ~~Signs of employment growth in the enterprise sector, as well as a decline in unemployment, have been observed~~. **Employment in the enterprise sector is slowly rising, and unemployment is gradually falling.** However, ~~despite a slight fall in February~~, the unemployment rate is still elevated, which restricts wage pressure in the economy.
In ~~February 2014~~ **March** CPI inflation amounted to 0.7%, thus remaining markedly below the NBP inflation target of 2.5%. Core inflation also remained low, and producer prices continued to fall. This was accompanied by low inflation expectations.
~~Lending growth to the private sector – while accelerating slightly – remains limited. However, the modest increase in mortgage loans and the further gradual revival in consumer loans 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. Therefore, the Council decided to keep NBP interest rates unchanged. ~~In the Council's assessment~~ **The Council maintains its assessment that** 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 stabilization in the financial markets.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Rates Area, Economic Analysis Department, ul. Marszałkowska 142, 00-061 Warsaw, Poland, phone +48 22 534 18 88, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.