

Economic Comment

CPI forecasts slightly up, MPC unimpressed

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Poland's MPC left interest rates unchanged, as expected. Reference rates still at 1.50%. New NBP GDP and CPI forecasts were slightly tilted upwards for 2019 and 2020, while 2021 remained fairly unchanged.

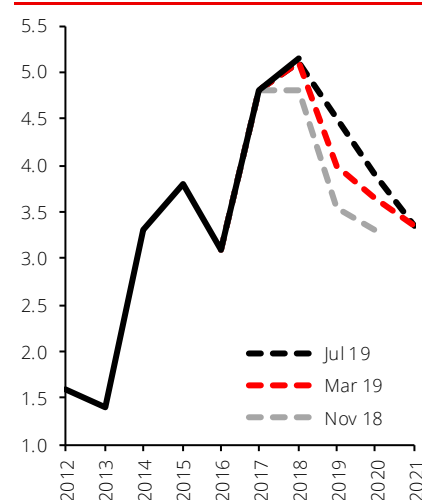
Nothing new at the conference: the NBP president Adam Glapiński maintained his view that rates are likely to remain flat until end of 2021, inflation will probably rise "slightly" at the start of 2020, but then will fall again, and remain within the tolerance band around the target (1.5-3.5%) throughout the forecasting horizon. We think that inflation rise in the coming months/quarters will be faster than anticipated by the central bank (CPI will reach almost 4% in January 2020, partly due to 'unfreezing' energy tariffs, see more in our [MACROscope](#)), but it will not trigger the MPC's reaction due to a very dovish turn in global monetary policy. Thus, the NBP reference rate will remain unchanged even until the end of 2020.

Inflation and GDP projections in subsequent *Inflation reports*

	GDP growth			
	Jul 18	Nov 18	Mar 19	Jul 19
2018	4.6 (±0.6)	4.8 (±0.4)	-	-
2019	3.75 (±0.95)	3.55 (±0.85)	4.0 (±0.7)	4.5 (±0.6)
2020	3.35 (±0.95)	3.25 (±0.95)	3.65 (±0.95)	3.9 (±0.9)
2021	-	-	3.35 (±0.95)	3.35 (±0.95)
	CPI inflation			
	Jul 18	Nov 18	Mar 19	Jul 19
2018	1.8 (±0.3)	1.8 (±0.1)	-	-
2019	2.7 (±0.8)	3.25 (±0.65)	1.7 (±0.5)	2.0 (±0.3)
2020	2.8 (±1.1)	2.9 (±1.0)	2.65 (±0.95)	2.8 (±0.9)
2021	-	-	2.4 (±1.1)	2.4 (±1.1)

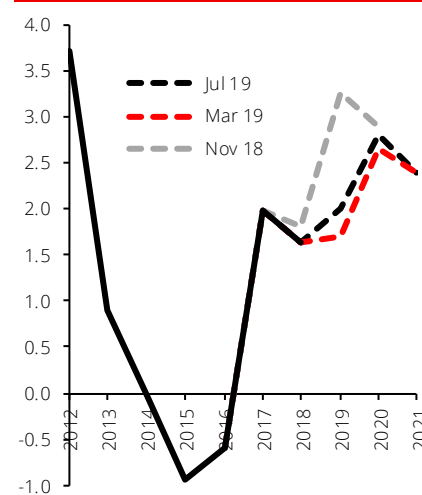
Middle points of GDP and CPI growth paths and width of 50-percent probability ranges.

Central bank's GDP growth forecasts (central path)



Source: NBP, Santander Bank Polska

Central bank's CPI forecasts (central path)



Source: NBP, Santander Bank Polska

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MPC statement (indication of changes as compared to June statement)

Incoming data suggest that global economic growth continues at a relatively slow pace, amid heightened uncertainty about the global economic outlook in the coming quarters. ~~At the same time, sentiment in industry is still weak, with more upbeat signs coming from the service sector.~~ In the euro area, despite ~~higher quarterly GDP growth still good situation in the services sector,~~ the pace of economic activity growth remains relatively slow. In the United States, economic conditions ~~remain stay~~ strong, and the quarterly GDP growth in 2019 Q1 was higher than in the previous quarter. ~~In China, GDP growth stabilised in 2019 Q1, albeit but recent data suggest the risk of indicators signal a possible weakening of activity in the coming quarters. In China, incoming data indicate a deterioration in economic conditions in the current quarter 2019 Q2.~~

~~Oil in the recent period there has been an increased volatility of global oil prices have declined, following, which are still lower than a significant year ago. This has been accompanied by an increase since the beginning of the year. Alongside that, in the recent period the global prices of certain some food products have risen. As a result, At the same time, inflation in many countries has edged up. Core inflation in the external environment of the Polish economy, including the euro area, has also picked up in the recent period remains moderate.~~

The European Central Bank is keeping interest rates close to zero, including the deposit rate below zero, and reinvests maturing securities bought under the asset purchase programme. ~~At the same time, the ECB has extended the period that it intends to keep interest rates unchanged.~~ The US Federal Reserve is keeping interest rates unchanged. ~~At the same time, the Fed is gradually limiting the pace of its balance sheet reduction, signalling the possibility of loosening monetary policy in the coming quarters.~~

In Poland, economic conditions remain good, and annual GDP ~~despite weaker~~ growth in 2019 Q1 amounted to 4.7% ~~abroad.~~ Activity growth is driven by rising consumption ~~— albeit at a slightly lower rate than in previous quarters —~~, fuelled by increasing employment and wages ~~as well as,~~ very high consumer sentiment. ~~This is accompanied by a marked rise in, and social benefit payments. Incoming data also indicate a continuation of significant growth in investment, including a strong recovery in investment outlays of enterprises. In 2019 Q1, net and exports also made a positive contribution to GDP growth, despite the weakening economic conditions in the external environment of the Polish economy.~~

In recent months, consumer price growth has increased, which was ~~accounted for driven~~ by rising fuel and food prices as well as higher core inflation. Nonetheless, inflation continues to run at moderate levels.

~~In the Council's assessment, the outlook for economic conditions in Poland remains favourable, and GDP growth this year may turn out to be slightly higher than expected in the March projection. At the same time, inflation will remain at a moderate level and, in the monetary policy transmission horizon, will stay close to the target. The Council became acquainted with the results of the July projection of inflation and GDP, prepared under the assumption of unchanged NBP interest rates. The July projection takes into account data and information published up to 18 June 2019. In line with the July projection based on the NECMOD model, there is a 50-percent probability that the annual price growth will be in the range of 1.7-2.3% in 2019 (against 1.2-2.2% in the March 2019 projection), 1.9-3.7% in 2020 (compared to 1.7-3.6%) and 1.3-3.5% in 2021 (compared to 1.3-3.5%). At the same time, the annual GDP growth – according to this projection – will be with a 50-percent probability in the range of 3.9-5.1% in 2019 (against 3.3-4.7% in the March 2019 projection), 3.0-4.8% in 2020 (compared to 2.7-4.6%) and 2.4- 4.3% in 2021 (compared to 2.4-4.3%).~~

~~In the Council's assessment, the outlook for economic conditions in Poland remains favourable, and GDP growth will continue at a relatively high level in the coming years. At the same time, inflation will remain moderate and, in the monetary policy transmission horizon, will stay close to the target. Such an assessment is supported by the results of the July NBP projection.~~

The Council judges that the current level of interest rates is conducive to keeping the Polish economy on a sustainable growth path and maintaining macroeconomic stability.

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