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Economic Comment

NBP projection upgrade

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The Monetary Policy Council kept all the policy parameters unchanged, with the main rate at 0.10%. The NBP staff projections update resulted in an even higher CPI path than in the November edition (the mid-point for 2021 up to 3.15% from 2.5%, 2022 up to 2.8% from 2.6%) and a substantial upgrade of 2021 GDP growth (3.95% vs 2.65% previously). For the first time the projection covered 2023 and showed that inflation is going to stay much above the official target then (mid-point at 3.2%) while GDP growth is going to be 5.4%, as in 2022.

Despite this clearly bullish changes to the projection the tone of the MPC statement has not changed. We will have to wait until Friday's NBP governor's video conference to hear more about the current monetary policy bias. The NBP's GDP forecast is now among the most bullish on the market and the CPI forecast, although it hasn't moved much, sits above the inflation target in 2021-2023 (albeit below the upper bound of tolerable deviations). We think that we will now hear much less about the possibility of rate cuts from the MPC. But at the same time, it still seems very far away until the central bank starts changing its rhetoric towards more hawkish. We think it is quite possible that Adam Glapiński on Friday may try to talk down the building market expectations for policy tightening in the coming years. Overall, we do not change our view that interest rates will remain on hold at least until the end of the MPC's term of office (early 2022).

The new *Inflation Report* with more details about the NBP economic forecasts will be published on Monday, 8 March at 10:00 CET.

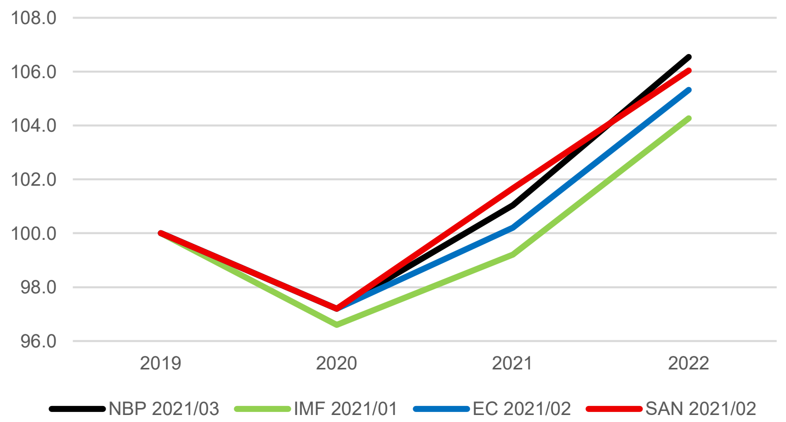
Inflation and GDP projections in subsequent Inflation reports

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

	GDP growth			
	Mar 20	Jul 20	Nov 20	Mar 21
2020	3.2 (±0.7)	-5.7 (±1.5)	-3.55 (±0.55)	-
2021	3 (±0.9)	4.35 (±2.25)	2.65 (±1.85)	3.95 (±1.35)
2022	2.75 (±0.95)	3.95 (±2.05)	5.8 (±2)	5.45 (±1.45)
2023	-	-	-	5.4 (±1.4)
	CPI inflation			
2020	3.65 (±0.55)	3.25 (±0.35)	3.45 (±0.05)	-
2021	2.65 (±0.95)	1.25 (±0.95)	2.5 (±0.7)	3.15 (±0.45)
2022	2.35 (±1.05)	1.75 (±1.15)	2.6 (±1)	2.8 (±0.8)
2023	-	-	-	3.2 (±1)

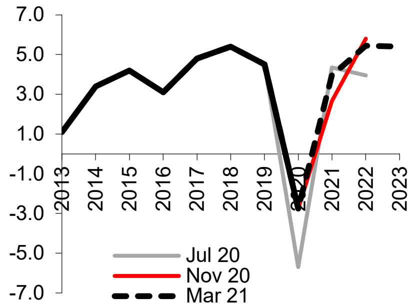
Source: NBP, Santander

GDP level in constant prices according to various forecasts (2019=100)



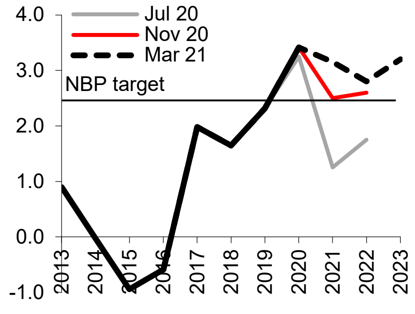
Source: NBP, IMF, European Commission, Santander

GDP growth according to NBP projections (projection mid-points)



Source, NBP, Santander

CPI growth according to NBP projections (projection mid-points)



Source, NBP, Santander

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~~As COVID-19 infections increased and the sanitary restrictions were tightened again, the global recovery slowed down in 2020 Q4. According to preliminary data, GDP fell in the euro area in that period. In January 2021 – faced with the risk of another wave of infections – some European countries extended or tightened the existing pandemic restrictions. As a result, the services sector continues to see a downturn amid a relatively better situation in industry. Inflation in the global economy remains low. The major central banks are keeping interest rates low and conducting asset purchases.~~ The surge in COVID-19 pandemic and related restrictions had a negative impact on global economic activity in 2020 Q4 and the beginning of 2021. The euro area slipped into recession again in 2020 Q4. Available data on the economic situation at the beginning of 2021 point to a continued weakness in the services sector, with further rise in industrial output in this economy.

~~Growing concerns~~ Inflation in the global economy is low, despite a slight rise recorded in some countries in January. The major central banks are keeping interest rates low and conducting asset purchases. Despite uncertainty about the ~~inability to swiftly halt the pandemic despite the start~~ development of the ~~vaccinations has negatively affected global~~ pandemic, financial market sentiment ~~over the recent past. At the same time, expectations about the additional fiscal stimulus in the United States have supported asset~~ remains positive. This is accompanied by a rise in global commodity prices ~~in the financial markets. Since the beginning of the year, the prices of some commodities~~, including oil~~, have increased in the global markets~~.

In Poland, preliminary data on national accounts for 2020 Q4 confirmed that GDP fell in this period. Activity declined as a result of a fall in consumption and lower investment than a year ago. In turn, the fall in GDP was limited by the positive impact of net exports.

~~In Poland,~~ Incoming data on the ~~rise~~economic conditions in January indicate that the ~~number of COVID-19 infections and the tightening of the pandemic restrictions~~relatively good situation in ~~2020 Q4 had a negative impact on economic activity in that period, in particular in some parts of the service~~ the industrial sector~~. December saw an increase in the~~ continues, although industrial output growth ~~rate of~~slowed down. In turn, construction and assembly ~~production and in industrial production, including in exporting sectors. The current estimates, taking into account the preliminary estimate of GDP in 2020, indicate that 2020 Q4 saw another decline in GDP, although considerably smaller than that in 2020 Q2. The economic downturn~~output and retail sales recorded significant falls. This was ~~driven, in particular,~~accompanied by ~~lower consumption with investment remaining weaker than a year before. The labour market data for December point to~~a fall in average employment in the enterprise sector ~~still lower than a year ago amid rising~~ and a decline in annual growth of average wages in this sector. ~~At~~According to the ~~same time~~GUS flash estimate, inflation stood at ~~the end of 2020 declined to~~ 2.~~4~~7% y/y in January 2021.

~~It can be expected that following the fall in GDP in 2020, economic activity will increase in 2021, although the scale of the recovery will mainly depend on the epidemiological situation and the related restrictions. The further course of the pandemic and its impact on the economic situation in Poland and abroad remain the main sources of uncertainty for the economic outlook in Poland.~~

Following the fall in GDP in 2020, a rise in economic activity is expected in 2021, although the scale and pace of the recovery are uncertain. The further course of the pandemic and its impact on the economic situation in Poland and abroad continue to be the main source of uncertainty. The economic policy measures, including the easing of NBP's monetary policy introduced last year and the expected recovery in the global economy, will have a positive impact on the ~~economic situation. However, growth in economic activity may be limited by the heightened uncertainty and the weaker sentiment of~~ domestic economic ~~agents than before the pandemic, which will result in a significant slowdown in investment growth. The pace of~~ situation. The pace of the economic recovery in Poland may ~~also~~ be reduced by the lack of a visible and more durable zloty exchange rate adjustment to the global pandemic shock and to the monetary policy easing introduced by NBP.

The Council became acquainted with the results of the March projection of inflation and GDP based on the NECMOD model. In line with the projection prepared under the assumption of unchanged NBP interest rates and taking into account data available until 16 February 2021 there is a 50-percent probability that the annual price growth will be in the range of 2.7–3.6% in 2021 (against 1.8–3.2% in the November 2020 projection), 2.0– 3.6% in 2022 (compared to 1.6–3.6%) and 2.2–4.2% in 2023. At the same time, the annual GDP growth – according to this projection – will be with a 50-percent probability in the range of 2.6–5.3% in 2021 (against 0.8–4.5% in the November 2020 projection), 4.0–6.9% in 2022 (compared to 3.8–7.8%) and 4.0–6.8% in 2023.

NBP will continue to purchase government securities and government-guaranteed debt securities on the secondary market as part of the structural open market operations. These operations are aimed at changing the long-term liquidity structure in the banking sector, ensuring the liquidity in the secondary markets for the purchased securities and enhancing the impact of the NBP interest rate cuts on the economy, i.e. strengthening the monetary policy transmission mechanism. In order to strengthen the impact of NBP's monetary policy easing on the economy, NBP may also intervene in the foreign exchange market. The timing and scale of the measures taken by NBP will depend on the market conditions. Furthermore, NBP will also continue to offer bill discount credit aimed at refinancing loans granted to enterprises by banks.

NBP's monetary policy mitigates the negative economic impact of the pandemic, supports economic activity and stabilises inflation at the level consistent with NBP's medium-term inflation target. Due to its positive impact on the financial situation of debtors, it is also conducive to the strengthening of financial system stability.