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Economic Comment

Whatever it takes

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Monetary Policy Council decided to hike main interest rates by 75bp - the reference to 1.25%, lombard rate to 1.75%, deposit rate to 0.75%. The new NBP projection has shown GDP growth in 2022-23 slightly lower than in July (but still very solid and near 5%) and CPI inflation much higher in the forecast horizon (averaging 4.9% in 2021, 5.8% in 2022, 3.7% in 2023). The November rate hike was the second strong move in a row, after +40bp hike in October.

The post-meeting statement did not reveal any clear hints regarding the policy outlook. The main takeaway from the lengthy NBP president's press conference was – in our view – that markets should be prepared for continuation of policy tightening. Mr Glapiński said that the NBP will do "whatever it takes" to bring inflation to the target (or, rather, below the upper end of the tolerance band around the target) in the medium run, explicitly referring to Mario Draghi's famous sentence. He said that MPC said nothing about the rate hikes cycle on purpose, as there was no such decision, but added that the cycle cannot be ruled out and the central bank will keep reacting to the changing situation.

It seems that the next decisions will be data dependent and if inflation keeps surprising to the upside (which we think is quite likely vs NBP's expectations) the MPC will keep hiking rates. NBP president said the central bank expects inflation to peak in January 2022 at "7-percent-and-something". Meanwhile, we think CPI will breach 7% already in November and by February it will reach at least 8% y/y. So, another interest rate hike even in December cannot be ruled out (the size of the move likely to depend on the size of the CPI surprise). The big question right now is about the target NBP reference rate in this cycle. After today's decision the FRA market started pricing-in WIBOR3M at 3.1% in 1 year horizon. We think that the scenario of NBP reference rate going up to 3.0% in 2022 is well possible, unless the economic outlook deteriorates significantly due to some unexpected shock.

The new *Inflation Report* with more details about the NBP economic forecasts will be published on Monday, November 8.

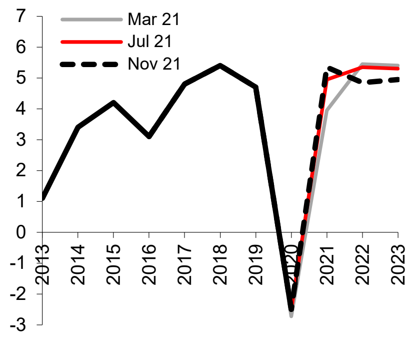
Inflation and GDP projections in subsequent Inflation reports

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

	GDP growth			
	Jul 20	Nov 20	Mar 21	July 21
2021	2.65 (±1.85)	3,95 (±1,35)	4.95 (±0.85)	5.35 (±0.45)
2022	5.8 (±2)	5,45 (±1,45)	5.35 (±1.15)	4.85 (±1.05)
2023	-	5,4 (±1,4)	5.3 (±1.2)	4.95 (±1.15)
	CPI inflation			
2021	2.5 (±0.7)	3,15 (±0,45)	4.1 (±0.3)	4.85 (±0.05)
2022	2.6 (±1)	2,8 (±0,8)	3.3 (±0.8)	5.8 (±0.7)
2023	-	3,2 (±1)	3.35 (±0.95)	3.65 (±0.95)

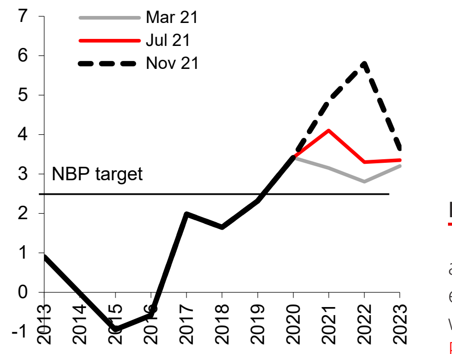
Source: NBP, Santander

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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Changes versus October's statment

The activity in global economy continues to recover, yet ~~an increase in the number of infections observed in recent months~~a difficult pandemic situation persisting in many countries together with supply-side constraints in some markets~~, has contributed to the weaker activity growth~~ and a strong increase in commodity prices, have a negative impact on economic situation in some ~~economies in Q3. The~~ countries. Still, latest forecasts indicate a further increase in global GDP next year.

At the same time a markedly higher than a year ago commodity prices – in particular ~~that~~prices of natural gas, but also of oil and coal, as well as of some agricultural commodities – ~~have risen markedly in the recent period and are now much higher than a year ago. Together~~together with continued global supply~~-side constraints in some markets~~ chain disruptions and ~~fast growth in prices of international transport, it has contributed in recent months to~~ significant increase in international shipping costs, contribute to a marked rise in inflation in many economies~~. Nevertheless, major~~ and an upward shift in its forecasts for the next year. In many economies, including in the USA and euro area, inflation significantly exceeds the central banks targets, staying at the highest levels in many years.

Major central banks are keeping interest rates low while continuing asset purchases, although some of them signal the reduction in the monetary accommodation scale. At the same time central banks in the Central-Eastern Europe region have been increasing interest rates.

In Poland, economic activity continues to recover. ~~In August, the annual growth of retail sales, industrial production and of construction and assembly output have picked up. At the same time, supply-side constraints in some markets are weighing on business sentiment in the manufacturing sector. Even though the average employment in the enterprise sector has been still somewhat below the pre-pandemic level, the~~The situation in the labour market is still improving~~ which is reflected in substantial~~ , as indicated by decreasing unemployment and a marked increase in average wage ~~growth~~ in ~~this~~the enterprise sector. In the coming quarters, economic conditions are expected to remain favourable~~, although~~. However there ~~is still an uncertainty regarding an~~are significant risk factors related to the impact of autumn wave of the epidemic on the ~~economic activity~~economy, as well as to the effects of supplyside constraints and high energy commodity prices on the global economic conditions.

Inflation in Poland, according to the Statistics Poland flash estimate for ~~September~~October 2021, increased to ~~5~~6.8% in annual terms, and in monthly terms it amounted to 1.0~~.6~~%. The elevated ~~2/2~~ inflation resulted, to a great extent, from external factors beyond the control of domestic monetary policy, such as higher than a year ago global prices of energy and agricultural commodities, earlier increase in electricity prices and in waste disposal charges, as well as disruptions in global supply chains and international transport. The ongoing economic recovery, including demand driven by rising household income, has also added to the price growth.

~~Even though~~The Council became acquainted with the ~~impact~~results of ~~some supply-side factors currently increasing~~ the November projection of inflation ~~will fade next year, the~~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 21 October 2021 there is a 50-percent probability that the annual price growth will be in the range of 4.8–4.9% in 2021 (against 3.8–4.4% in the July 2021 projection), 5.1-6.5% in 2022 (compared to 2.5-4.1%) and 2.7–4.6% in 2023 (compared to 2.4–4.3%). At the same time, the annual GDP growth – according to this projection – will be with a 50-percent probability in the range of 4.9–5.8% in 2021 (against 4.1–5.8% in the July 2021 projection), 3.8-5.9% in 2022 (compared to 4.2-6.5%) and 3.8–6.1% in 2023 (compared to 4.1–6.5%).

The rise in global prices of both energy and agricultural commodities observed ~~in recent months may still~~this year as well as continued global supply chain disruptions have led to an increase ~~price growth in~~of inflation forecasts for the coming quarters~~.~~ both globally and in Poland. Amidst ~~probable~~expected further economic recovery and favourable labour market conditions, ~~inflation may remain elevated longer than hitherto expected.~~

~~Such a situation~~it would generate a risk of inflation ~~staying above inflation target~~remaining elevated in the ~~medium term~~monetary policy transmission horizon. In order to reduce this risk, i.e. striving to decrease ~~the~~ inflation to the NBP target in the medium term, the Council decided to increase NBP interest rates.~~ Moreover~~ NBP may still intervene in the foreign exchange market and use other instruments envisaged in the Monetary Policy Guidelines. The timing and scale of the measures taken by NBP will depend on the market conditions.

The Council adopted the Inflation Report – November 2021 as well as the Opinion on the 2022 Draft Budget Act.