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Economic Comment

Hawks getting more dovish

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Polish MPC raised interest rates by 50bp, less than had been expected (market consensus and our forecast was 75bp). It was the tenth rate hike in a row and the main reference rate went up to 6.50%.

The new NBP projection shows much higher CPI inflation in 2022-23 (the middle of the 50% probability range is at 14.3% and 12.45%, respectively, both levels c.3.5pp above the March projection) and slightly lower in 2024 (4.10%). We guess that the projection assumes the expiry of anti-inflation shield in October 2022, in line with the currently existing law, which seems to be an unrealistic assumption, as in our view the temporary tax reductions will be maintained until the next general elections (late 2023). It means that the projection is overestimating CPI in 2022-23 and underestimating in 2024. GDP forecast was trimmed by 1.75pp compared to the March projection in 2023 and by 0.5pp in 2024 (to 1.25% and 2.25%, respectively). Our 2023 GDP forecast is similar, which means that the NBP is currently taking into consideration the scenario of technical recession at the turn of 2022/2023.

The official MPC communique is not very informative regarding the monetary policy outlook – actually we have gotten used to this - there is hardly any change in the document's key paragraphs. As we wrote in the past, the MPC statement lost its function of guiding market expectations. The key channel of central bank communication is now the NBP president's press conference, scheduled for Friday 15:00CET.

We think the smaller than expected move by 50bp is a signal that the MPC is increasingly worried about the looming recession and we expect to hear tomorrow even more signals from Mr. Glapiński about the approaching end of the tightening cycle. Such NBP message will be negative for the PLN outlook in the coming weeks, in our view, as the major central banks are likely to remain in the hawkish mode. The EURPLN jumped briefly above 4.80 immediately after the MPC decision, but failed to hold this level, as reportedly the state-owned BGK entered the market. For now, we maintain the view that the NBP rates may peak at c.7% after the summer holidays.

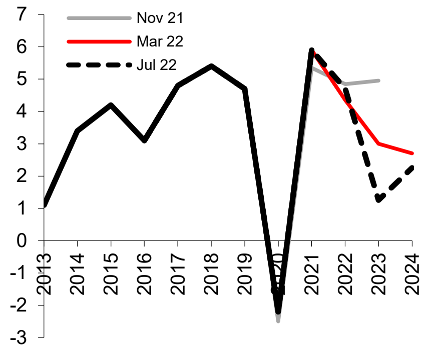
Inflation and GDP projections in subsequent Inflation reports

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

	GDP growth			
	Jul 21	**Nov 21**	**Mar 22**	**Jul 22**
2022	5.35 (±1.15)	4.85 (±1.05)	4.35 (±0.95)	4.7 (±0.8)
2023	5.3 (±1.2)	4.95 (±1.15)	3 (±1.1)	1.25 (±1.05)
2024	-	-	2.7 (±1.3)	2.25 (±1.25)
	CPI inflation			
2022	3.3 (±0.8)	5.8 (±0.7)	10.75 (±1.45)	14.3 (±1.1)
2023	3.35 (±0.95)	3.65 (±095)	9 (±2)	12.45 (±2.65)
2024	-	-	4.25 (±1.45)	4.1 (±1.9)

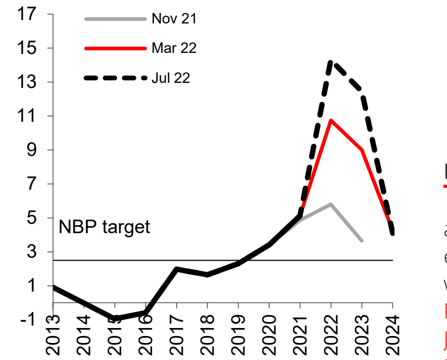
Source: NBP, Santander

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 June's statment

~~Incoming data indicate a gradual slowdown in global growth.~~ In ~~recent months economic conditions deteriorated markedly in some emerging market economies, including in China, amid still relatively favourable~~2021 Q2, economic conditions in the ~~biggest~~largest advanced economies~~. Global~~ were relatively favourable. At the same time, however, in some emerging market economies, including China, the pace of activity ~~is~~growth deteriorated markedly. Recently, signals of notable worsening of the global growth outlook have intensified. Activity in the global economy and its prospects are under the negative impact of high prices of commodities and of production components, persisting disruptions in the functioning of global supply chains and the repercussions of Russia's military aggression against Ukraine.

Global inflation continues to rise, reaching in many economies the highest levels in decades. At the same time, inflation forecasts for the coming quarters are being ~~significantly~~still revised upwards. The main source of growing inflation continue to be high commodity prices as well as prolonged disruptions in global supply chains and international transport, amplified by the effects of war. In some economies, rising prices are also driven by high demand growth and increasing labour costs. As a consequence, core inflation is also increasing.

Amidst a strong increase in inflation, many central banks ~~are~~have been tightening their monetary policy~~.~~ in the recent period. The US Federal Reserve increased interest rates. In turn, the ECB concluded net asset purchases ~~and increases interest rates. The ECB keeps negative interest rates, although it has been reducing the scale of asset purchases~~. Central banks in many economies, including in the Central-Eastern Europe region, ~~continue~~continued to increase interest rates.

In Poland, ~~GDP growth in 2022 Q1– according to Statistics Poland preliminary estimate – stood at 8.5% y/y, with a significant contribution of change in inventories, while both consumption and investment growth declined. Available~~available monthly data ~~point to continuing 2/3 favourable~~ indicate that economic conditions remained favourable in 2022 Q2, however, economic activity growth ~~will decelerate. Meanwhile, employment continues to increase~~ decelerated. This is accompanied by ~~a further fall in~~the lowest unemployment rate on record and a marked rise in wages. ~~A continuation of relatively favourable economic conditions may be expected in the coming quarters, although a~~A further slowdown of _economic growth is forecast~~, –~~ for the coming quarters, while both the domestic and global economic outlook is subject to significant uncertainty.

Inflation in Poland – according to Statistics Poland flash estimate – increased in ~~May~~June 2022 to ~~13.9~~15.6% y/y. ~~Elevated~~High inflation results mainly from ~~a~~an earlier strong rise in global energy and agricultural commodity prices – driven, to a large extent, by the repercussions of Russian military aggression against Ukraine – and earlier increases in regulated tariffs on electricity, natural gas and thermal energy. Consequences of disruptions in global supply chains and high shipping costs in international trade also boost inflation. At the same time, continued robust demand which enables enterprises to pass rising costs on to the final prices has had also a positive contribution to the price growth in Poland. In turn, a curbing impact on inflation has been exerted by a reduction in some tax rates as part of the Antiinflationary Shield. In the coming quarters, it is expected that the impact of factors currently amplifying price growth will persist, including those related to the Russian military aggression against Ukraine. Meanwhile, the NBP interest rates increases, together with fading of the impact of shocks currently boosting prices will contribute to a gradual ~~fall~~decline in inflation in the coming years. The decrease in inflation ~~should~~would also be supported by appreciation of zloty exchange rate, which, in the Council's assessment, ~~will~~would be consistent with the fundamentals of the Polish economy.

The Council became acquainted with the results of the July 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 22 June 2022, there is a 50-percent probability that the annual price growth will be in the range of 13.2–15.4% in 2022 (against 9.3–12.2% in the March 2022 projection), 9.8-15.1% in 2023 (compared to 7.0-11.0%) and 2.2-6.0% in 2024 (compared to 2.8–5.7%). At the same time, the annual GDP growth – according to this projection – will be with a 50-percent probability in the range of 3.9-5.5% in 2022 (against 3.4–5.3% in the March 2022 projection), 0.2-2.3% in 2023 (compared to 1.9-4.1%) and 1.0-3.5 % in 2024 (compared to 1.4–4.0%).

The Council assessed, that there persists a risk of inflation running above the NBP inflation target in the monetary policy transmission horizon. In order to reduce this risk, i.e. striving to decrease inflation to the NBP target in the medium term, the Council decided to increase NBP interest rates again. The increase of the NBP interest rates will also curb inflation expectations.

Further decisions of the Council will depend on incoming information regarding perspectives for inflation and economic activity, including the impact of the Russian military aggression against Ukraine on the Polish economy.

NBP will take all necessary actions in order to ensure macroeconomic and financial stability, including above all to reduce the risk of inflation remaining elevated.

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