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Economic Comment

Current rates level is adequate according to the MPC

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The NBP President Adam Glapiński said at today's press conference that the MPC's decision to keep interest rates on hold was a fully conscious choice that inflation's return to the target should be gradual, not a rapid one, as the latter could trigger significant yet unnecessary social and economic costs. The MPC is fully aware that inflation may rise further in the nearest months (the central bank predicts the CPI peak near 19% in February), but it expects a beginning of a steady decline since March, which should bring inflation to around 8% in 4Q23 and towards the official target in 2025. The partial unwinding of the government's anti-inflation shield was already taken into account by the new inflation projection, and is expected to lift CPI somewhat at the start of 2023 (the NBP estimates that the government may offset around half of the tax move by alternative measures). Mr. Glapiński emphasised that disinflation in Poland will be assisted by tightening of monetary policies abroad, global economic slowdown and also by a significant deceleration of GDP growth in Poland ("further deterioration of economic activity is certain"). Also, NBP head said that recent comments of PM Morawiecki imply that fiscal policy outlook has changed and the fiscal policy next year will not be pro-inflationary, but rather neutral for inflation. In the MPC's assessment the current level of interest rates is adequate. However the tightening cycle has been put on hold, not terminated, and the next decisions in monetary policy will depend on incoming data and information. Summing up, the central bank is clearly signalling that it is pretty much done with interest rate hikes in Poland, but at the same time is not closing the door for resuming the cycle if the scenario changes materially vs. current expectations. We think that interest rates will remain on hold at least until March. We do not rule out additional +50bp in March-April (in one or two steps) in the scenario when inflation jumps above 20% or PLN sells off significantly. Yet, the probability of this scenario seems to be diminishing, especially if inflation abroad stops surprising to the upside.

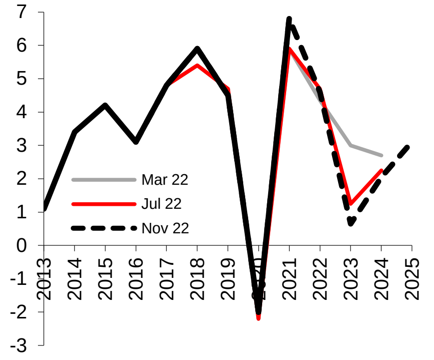
Inflation and GDP projections in subsequent Inflation reports

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

	GDP growth			
	Nov 21	Mar 22	Jul 22	Nov 22
2022	4.85 (±1.05)	4.35 (±0.95)	4.7 (±0.8)	4.6 (±0.3)
2023	4.95 (±1.15)	3 (±1.1)	1.25 (±1.05)	0.65 (±0.95)
2024	-	2.7 (±1.3)	2.25 (±1.25)	2.05 (±1.05)
2025	-	-	-	3.1 (±1.3)
	CPI inflation			
2022	5.8 (±0.7)	10.75 (±1.45)	14.3 (±1.1)	14.45 (±0.05)
2023	3.65 (±095)	9 (±2)	12.45 (±2.65)	13.2 (±2.1)
2024	-	4.25 (±1.45)	4.1 (±1.9)	5.85 (±1.75)
2025	-	-	-	3.5 (±1.4)

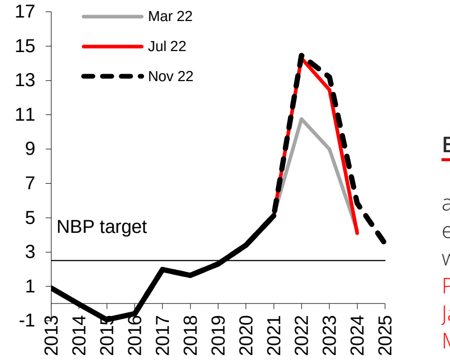
Source: NBP, Santander

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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