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Economic Comment

Forecasts slighty changed, MPC stressed the target's importance

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The MPC did not change interest rates during its meeting in March, as expected. The NBP reference rate is still at 6.75%. New NBP staff economic forecasts did not change much versus the November round: 2023 average inflation went down to 11.9% from 13.2%, but other CPI numbers (averages for 2024 and 2025) as well as the entire GDP growth path in 2023-2025 remained almost intact. The post-meeting statement changed somewhat versus February, especially in the last paragraph: 'NBP will take all necessary actions in order to ensure macroeconomic and financial stability, including above all to bring inflation to the NBP inflation target in the medium term'. Earlier statements did not include this reference to the target (the previous wording was 'above all to reduce the risk of inflation remaining elevated'). The MPC acknowledged the economic slowdown, visible especially in consumption and in loans, which will be dragging CPI growth lower. While the statement may actually sound a little bit more hawkish, due to the strong declaration of the CPI target's importance, we think the MPC is unlikely to resume the hiking cycle. As usual, we are awaiting tomorrow's conference of the NBP president, who can say a bit more about the monetary policy prospects.

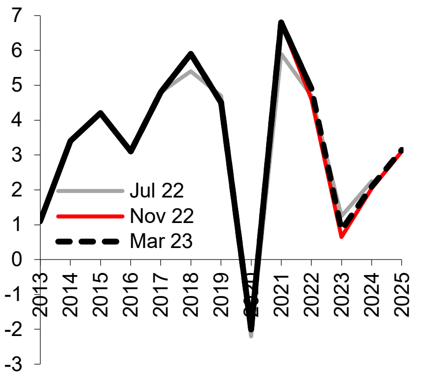
Inflation and GDP projections in subsequent Inflation reports

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	4.35 (±0.95)	4.7 (±0.8)	4.6 (±0.3)	-
2023	3 (±1.1)	1.25 (±1.05)	0.65 (±0.95)	0.85 (±0.95)
2024	2.7 (±1.3)	2.25 (±1.25)	2.05 (±1.05)	2.1 (±1.)
2025			3.1 (±1.3)	3.15 (±1.15)
	CPI inflation			
2022	10.75 (±1.45)	14.3 (±1.1)	14.45 (±0.05)	-
2023	9 (±2)	12.45 (±2.65)	13.2 (±2.1)	11.85 (±1.65)
2024	4.25 (±1.45)	4.1 (±1.9)	5.85 (±1.75)	5.7 (±1.8)
2025			3.5 (±1.4)	3.5 (±1.5)

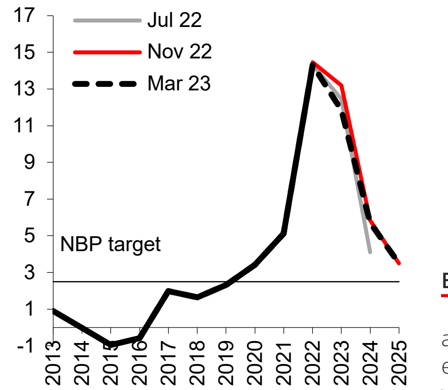
Source: NBP, Santander

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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MPC post-meeting statement (changes vs. the February statement):

In 2022 Q4~~ the annual GDP growth in major economies declined. In particular, the euro area saw a further lowering of growth in activity. Although business condition indicators in this economy have slightly improved lately, forecasts still foresee a significant slowdown in euro area GDP growth in 2023. Activity in the global economy and its prospects continue to be negatively affected by the impact of Russia's military aggression against Ukraine, including high energy prices, as well as by the tightening of monetary policy around the world. There persists uncertainty regarding further impact of these shocks on ~~, global economic growth slowed down. In the euro area – despite some improvement in recent months – economic conditions~~.~~ remain weakened. At the same time, forecasts suggest a significant slowdown in GDP growth in 2023. Inflation in ~~many~~major advanced economies has ~~recently ~~declined~~, although~~. However, in most economies, it remains high~~. High price dynamics is strongly influenced~~, driven by ~~high energy prices, protracted~~lagged effects of the earlier supply shocks, including ~~shocks at commodity markets~~in energy market, as well as demand factors and increasing labour costs. ~~Under such conditions, core inflation in most countries likewise remains high. However, in~~In recent months, prices of ~~some~~energy commodities have declined~~. At the same time, ~~, which together with softening of supply chain disruptions ~~are visibly mitigated compared to the first half of 2022. As a result, ~~reduces price pressures~~ are diminishing, which translates into lower ~~. It is reflected in systematically declining growth in producer prices~~ in many countries. ~~. At the same time, core inflation remains high.

The Federal Reserve of the United States and the European Central Bank ~~raised again ~~continue to increase their interest rates~~ in February 2023.~~. In turn, ~~some~~ central banks ~~of emerging economies, including those in the ~~in Central-Eastern Europe ~~region ~~– after earlier significant monetary policy tightening – ~~have kept~~are now keeping interest rates unchanged. ~~In Poland, incoming data confirm a slowdown in~~

Amid the weakening of economic growth around the world, also in Poland activity~~. According to Statistics Poland preliminary estimate, GDP growth in 2022 declined to 4.9% y/y, which implies that 2/2 in ~~ has slowed down. In 2022 Q4~~ the annual~~, real GDP growth ~~most likely decreased once again.~~declined to 2.0% y/y. Reduction in consumption demand lowers economic growth. At the same time, investments continue to increase. Despite the ~~decelerating GDP growth~~slowdown in activity, labour market situation remains good, ~~which is reflected i.a. in a ~~including low unemployment~~ rate. At the same time, data on the corporate sector show that nominal annual growth in average wages in December 2022 slowed down compared to the previous month. Inflation in Poland in December 2022 decreased to 16.6% y/y. ~~. The ~~decrease in CPI in yearon-year terms compared to November was mainly driven by lower growth in prices of energy carriers and fuels, due to a ~~number of working persons remains high, although its decline in ~~prices of coal and oil. In 2022, as a whole, both CPI inflation as well as core ~~the private sector is observed.

CPI inflation in Poland in January 2023 – according to Statistics Poland flash estimate – was 17.2% y/y. The increase in inflation ~~were running at high levels. Amid rising demand, ~~compared to December was driven to a large extent by an increase in VAT rates for energy goods. At the same time, despite weakening demand growth, the level of inflation was still affected by a significant increase in costs~~ –~~ resulting from ~~a~~an earlier strong surge in international commodity prices and disruptions in global value chains – that was passed through to consumer prices. ~~In turn, the so-called Anti-inflationary Shield continued to limit dynamics in consumer prices in 2022. In final months of 2022, commodity prices and producer price growth declined, and disruptions in global value chains were markedly less acute than earlier, which together with the expected economic slowdown, will support a ~~However, for several months commodity prices and PPI inflation have been decreasing, which signals a gradual easing of ~~consumer price dynamics. ~~external supply shocks. Together with weakening economic activity, it will support a decline in domestic CPI inflation in the coming quarters.

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 28 February 2023, there is a 50-percent probability that the annual price growth will be in the range of 10.2 – 13.5% in 2023 (against 11.1 – 15.3% in the November 2022 projection), 3.9 – 7.5% in 2024 (compared to 4.1 – 7.6%) and 2.0 – 5.0% in 2025 (compared to 2.1 – 4.9%). At the same time, the annual GDP growth – according to this projection – will be with a 50-percent probability in the range of -0.1 – 1.8% in 2023 (against -0.3 – 1.6% in the November 2022 projection), 1.1 – 3.1% in 2024 (compared to 1.0 – 3.1%) and 2.0 – 4.3% in 2025 (compared to 1.8 – 4.4%).

The Council assessed, that the weakening of the external economic conditions, together with ~~monetary policy tightening by major central banks, will ~~a decline in commodity prices, will continue to curb global inflation~~ and commodity prices. The deterioration of the global economic conditions also hampers GDP growth ~~, which will contribute to lower price growth in Poland. ~~Under such circumstances, the hitherto~~Decline in domestic inflation will be supported by the weakening in GDP growth, including consumption, amid significant decrease in credit growth. As a result, the Council assesses that the earlier strong monetary policy tightening undertaken by NBP will ~~support~~lead to a decline in inflation in Poland towards the NBP inflation target. At the same time, given strength and persistence of the recent shocks that remain beyond the impact of domestic monetary policy, ~~in ~~the ~~short term~~return of inflation ~~will remain high, and its return~~ to the NBP inflation target will be gradual. Such an assessment is supported by the March projection of inflation and GDP. A decrease in inflation would be faster if supported by appreciation of zloty exchange rate, which, in the Council's assessment, would be consistent with the fundamentals of the Polish economy.

Further decisions of the Council will depend on incoming information regarding prospects 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~~bring inflation ~~remaining elevated~~to the NBP inflation target in the medium term. NBP may intervene in the foreign exchange market, in particular to limit fluctuations of the zloty exchange rate that are inconsistent with the direction of monetary policy.

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