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Economic Comment

Inflation target is still far away

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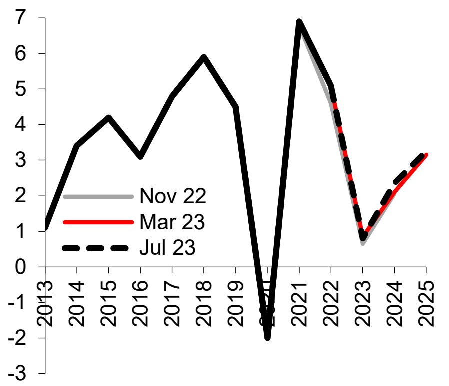
The Polish central bank kept interest rates unchanged, as expected – reference rate is still at 6.75%. The post-meeting press release included the main conclusions from the new NBP projection, which has revealed only minor changes as compared to the previous projection released in March (in line with our intuition). CPI inflation forecast in 2023 is very close to earlier estimates, in 2024 slightly lower (mid-point at 5.25%, i.e. -0.45pp vs March), and in 2025 marginally higher (mid-point 3.6%, +0.1pp). GDP growth forecast was reduced in 2023 (mid-point from 0.85% to 0.55%), and increased slightly in 2024-25. Apart from that the statement did not include any meaningful changes as compared to previous one. In particular, there was no mention whatsoever about the end of the tightening cycle. The numbers suggest that – despite some improvement in the short-term inflation profile (lower 2024) – the inflation's return to 2.5% target is not getting any closer, according to central bank's models. Especially that the GDP outlook for the next years has actually improved slightly (despite lower forecast for 2023). This gives little rationale for a dovish tilt in the MPC monetary policy, in our view. Our own forecasts foresee even higher inflation and GDP growth in 2024, which suggest that any policy easing in the coming months is even less justified. Of course some Council members may deem the projection as "too high", as they used to do in the past, but we keep thinking that the Polish central bank is still much further away from a serious discussion about interest rate cuts than the market is pricing-in. Tomorrow the NBP president Adam Glapiński will probably hint more about the policy outlook at the press conference starting at 15:00CET. We think the tone will be similar as in the previous months – despite claiming victory over inflation, Glapiński will repeat that all options are still on the table and future decisions will be data-dependent.

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 22	Nov 22	Mar 23	Jul 23
2022	4.7 (±0.8)	4.6 (±0.3)	-	-
2023	1.25 (±1.05)	0.65 (±0.95)	0.85 (±0.95)	0.55 (±0.75)
2024	2.25 (±1.25)	2.05 (±1.05)	2.1 (±1)	2.35 (±0.95)
2025		3.1 (±1.3)	3.15 (±1.15)	3.25 (±1.15)
	CPI inflation			
2022	14.3 (±1.1)	14.45 (±0.05)	-	-
2023	12.45 (±2.65)	13.2 (±2.1)	11.85 (±1.65)	11.90 (±0.80)
2024	4.1 (±1.9)	5.85 (±1.75)	5.7 (±1.8)	5.25 (±1.55)
2025		3.5 (±1.4)	3.5 (±1.5)	3.6 (±1.5)

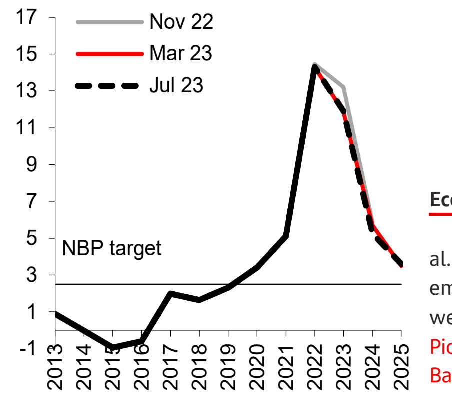
Source: NBP, Santander

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. June statement):

~~Despite an improvement in some of the indicators in recent months, the~~The global economic conditions remain weakened. ~~In the euro area, the annual GDP growth in 2023 Q1 declined further, while in Germany GDP contracted. Forecasts indicate that activity growth in the external environment of the Polish economy will be low this year.~~ At the same time, uncertainty about global economic activity outlook persists~~, i.a. due to tensions in the banking sector in the United States~~. In the euro area, following the contraction of the economic activity in the previous quarters, GDP growth in 2023 Q2 probably stayed low.

~~Inflation in the world economy is~~This is accompanied by globally declining~~. However~~ inflation, however, in most economies ~~it~~ annual price growth remains ~~high, driven by the lagged effects of the earlier supply shocks, including in the energy market, as well as demand factors and increasing labour costs. Yet, the~~elevated. The fall in commodity prices ~~of many commodities~~ together with the easing of global supply chain disruptions reduce price pressures~~. This~~, which is reflected in ~~systematically declining~~ the significant decrease of growth in producer prices. At the same time, core inflation ~~remains high~~in most economies is still elevated, although it gradually declines ~~in some economies~~.

~~In May 2023, the Federal Reserve of the United States and the European Central Bank increased interest rates. In turn, many central banks in emerging market economies, including in the Central-Eastern Europe region – after earlier significant monetary policy tightening – are now keeping interest rates unchanged.~~

Amid the weakening of economic growth around the world, activity growth also slowed down in Poland. ~~According to Statistics Poland preliminary estimate, the annual GDP growth in 2023 Q1 stood at -0.3%, amid further reduction in consumption demand. At the same time, investment continued to grow.~~ Retail sales ~~and~~, industrial output as well as construction and assembly output decreased in annual terms in ~~April~~May 2023. Despite the slowdown in activity growth, the labour market situation remains good and unemployment is low. The number of working persons ~~remains~~continues to be high, although this is accompanied by the low annual growth in employment in the enterprise sector ~~decelerates.~~.

According to Statistics Poland flash estimate, annual CPI inflation ~~in Poland~~ declined again, falling to a level of 11.5% y/y in June 2023 (compared to 13.0% y/y in May 2023~~, compared to 14.7% y/y in April 2023.~~). At the same time, for the second consecutive month, the overall price level did not change. The decrease in inflation in annual terms was driven mainly by a fall in annual price growth of energy, and – although to a lesser extent – of food and non-alcoholic beverages~~, as well as in~~ and of some other categories of goods. Taking into account the available data by Statistics Poland, it ~~is expected~~can be estimated that ~~– after a slight decline in April –~~ core inflation ~~significantly~~ decreased ~~in May. At the same time, despite weakening demand growth, the level of annual inflation index was still affected by a significant increase in costs resulting from an earlier strong surge in global commodity prices and disruptions in global value chains that was passed through to consumer prices. However, commodity prices and growth of~~again in June, as well. At the same time, the producer price ~~index have continued~~ growth is still decreasing strongly, which signals a further easing of external supply shocks. Together with the lower economic activity growth, it will support a further decline in ~~domestic CPI~~consumer price inflation in the coming quarters.

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 2023, there is a 50-percent probability that the annual price growth will be in the range of 11.1 – 12.7% in 2023 (against 10.2 – 13.5% in the March 2023 projection), 3.7 – 6.8% in 2024 (compared to 3.9 – 7.5%) and 2.1 – 5.1% in 2025 (compared to 2.0 – 5.0%). At the same time, the annual GDP growth – according to this projection – will be with a 50-percent probability in the range of -0.2 – 1.3% in 2023 (against -0.1 – 1.8% in the March 2023 projection), 1.4 – 3.3% in 2024 (compared to 1.1 – 3.1%) and 2.1 – 4.4% in 2025 (compared to 2.0 – 4.3%).

The Council assesses that the weakening of the external economic conditions, together with a decline in commodity prices, will continue to curb global inflation, which will still contribute to lower price growth in Poland. The decline in domestic inflation will be supported by a weakening of GDP growth, including consumption, amid a significant decrease in credit growth. ~~As a result, the~~The Council assesses that the ~~earlier~~ strong monetary policy tightening undertaken by NBP ~~will lead~~is leading to a decline in inflation in Poland towards the NBP inflation target. At the same time, given the strength and persistence of the earlier shocks, which remain beyond the impact of domestic monetary policy, the return of inflation to the NBP inflation target will be gradual. The decrease in inflation would be faster if supported by an appreciation of the 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.

NBP will continue to take all necessary actions in order to ensure macroeconomic and financial stability, including above all to bring inflation down 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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