

04 October 2023

Economic Comment

Interest rates lower by 25bp

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Polish Monetary Policy Council cut interest rates by 25bp, the main rate to 5.75%. The press release stressed that the demand pressure and cost pressure remain low. It also mentioned that most of external supply shocks are gone by now and that economic activity is now low (the September communique mentioned it was getting lower), which should support a further decline of CPI in the following quarters.

The MPC calls the October rate cut an adjustment which suggests that the Council does not think in terms of the whole easing cycle but rather wants to react to incoming signals from the economy. Such interpretation is confirmed by the press release which says that further decisions will be driven by information on inflation prospects and economic activity. It seems to us that the MPC is ready to deliver more easing if inflation continues to fall. Given that our October CPI forecast shows inflation shrinking below 7% y/y we tend to think that the next meeting will also end with a rate cut. On the other hand, there is a change in the wording used to describe the current move as 'consistent with' meeting the inflation target while the September cut was 'conducive to' meeting the target. This may signal limited room for more easing (unless economic data surprise to the downside). We expect another 25bp cut in November, followed by a pause that could extend well into 2024.

NBP president's post-meeting press conference is scheduled for Thursday, 1500CET, possibly giving us guidance on the MPC's motives, perception of current situation and outlook.

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MPC statement (changes vs. September)

The global economic conditions remain weakened. At the same time, uncertainty about the activity outlook in the largest economies persists. In the euro area, incoming data suggest that annual GDP growth slowed down again further in 2023 Q2Q3, while in Germany it was negative. Data incoming in 2023-Q3 indicate a further deterioration of Meanwhile, in the United States the economic conditions in the euro area remain relatively favourable.

This is accompanied by a further decline in inflation in many economies, however, in most countries annual price growth remains elevated. lower The earlier decrease of commodity prices together with the easing of global supply chain disruptions reduce price pressures, which is reflected in falling producer prices in many economies. At the same time, core inflation in most economies is still elevated, although it gradually declines.

Amid the weakened global economic conditions, activity growth also declined also in Poland. According to Statistics Poland preliminary estimate, the annual GDP growth in 2023-Q2 stood at -0.6%, amid a further reduction in consumption demand. At the same time, investment continued to rise. Retail sales and industrial output decreased in annual terms in July 2023 August 2023, however their decrease was somewhat milder compared to a month ago. Despite the slowdown in activity growth, the labour market situation remains good and unemployment is low. Although the number of working persons continues to be high, in August 2023 the annual growth in employment in the enterprise sector decelerates halted.

According to Statistics Poland flash estimate, annual CPI inflation in August September 2023 markedly declined again, falling to a level of 10.18.2% y/y (compared to 10.8% y/y in July 2023). At the same time, in monthly terms, the overall consumer price level did not change in August, following a decline by 0.2% in July: 1% y/y in August 2023). The decrease in inflation in annual terms was driven mainly by a fall in annual price growth of energy as well as food and non-alcoholic beverages.

Taking into account the data by Statistics Poland, it can be estimated that core inflation also decreased again in August, as well September. In July August 2023 the producer prices were again lower than a year before, which confirms the fading of most external supply shocks and a reduction of cost pressures. Together with the lower low economic activity growth, it will support a further decline in consumer price inflation in the coming quarters. The significant fall in inflation is accompanied by decreasing inflation expectations, which contributes to an increase in the restrictiveness of monetary policy.

In the Council's assessment, recently incoming data point to a weaker confirm weak demand and cost pressure than previously expected, which will contribute to a faster return of in the economy as well as reduced inflation to the NBP inflation target pressure amongst the weakened external economic conditions. Considering these circumstances – and taking into account the time lags in the monetary policy transmission to the economy – the Council adjusted the NBP interest rates, which will be conducive to consistent with meeting the NBP inflation target in the medium term. The Council upheld the assessment that the decrease in inflation would be faster if supported by an appreciation of the zloty exchange rate, which 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.

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