08 November 2023

Economic Comment

MPC surprised again, this time not cutting rates

Piotr Bielski, tel. 691 393 119, piotr.bielski@santander.pl

The MPC has kept interest rates on hold, the reference rate at 5.75%, while majority of analysts (including us) anticipated another rate cut by 25bps.

The new NBP projection shows lower GDP growth in 2023 than predicted in July (mid-point of 50% confidence range lower by 0.3pp), but higher growth in 2024-2025 (respectively +0.5, +0.3). CPI forecast was lowered in 2023 (-0.5) and 2024 (-0.55) but went up in 2025 (+0.15, to 3.75%), which means that at the end of forecast horizon inflation is still not converging to the official target. The new projection takes into account the -100bp rate cuts delivered in September-October. Apparently, the monetary easing delivered so far was strong enough to offset the effects of weaker economic growth outlook abroad, at least according to the NBP models.

The MPC statement says that the next interest rate decisions will be driven by information about inflation outlook and economic activity. Also, it admits that the inflation outlook is dimmed by the uncertainty regarding future fiscal and regulatory policy. The statement also acknowledged that the latest economic data signalled some improvement of (still low) economic activity.

Overall, we think that the the absence of a rate cut in November despite another marked fall in the CPI inflation rate (to 6.5% in October) is the first clear signal that the central bank's reaction function has changed after the parliamentary elections - it looks like the MPC will now be much more focused on stabilising inflation rather than stabilising economic growth. This is in fact not a bad thing, because in our view the earlier rate cuts made in September and October were premature and generated the risk of making inflation more persistent. Arguments against further monetary easing are easy to find, in our view. Firstly, the recent data showed signs of improving economic activity and a revival in domestic demand. Secondly, the looming change of the government indeed implies greater uncertainty about economic and fiscal policy (and risks rather on the side of a slightly larger rather than smaller budget deficit next year). A possible extension of the anti-inflationary shields, suggested by some politicians, on the one hand, could lower inflation at the beginning of 2024 but, on the other hand, implies additional fiscal costs that were not foreseen in the draft budget and should be supportive for private consumption outlook. Should the new government try to implement some of its pre-election promises (e.g. increases in the public sector wages, higher tax-free income), this would mean additional inflationary and fiscal risks.

Tomorrow's conference of NBP president Adam Glapiński may provide more guidance, but in our view after today's decision the financial market will have to adjust its optimistic expectations regarding interest rate cuts further down the road. We think that the NBP reference rate may remain at 5.75% in the next few quarters, probably for the better part of 2024.

Inflation and GDP projections in subsequent Inflation reports

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

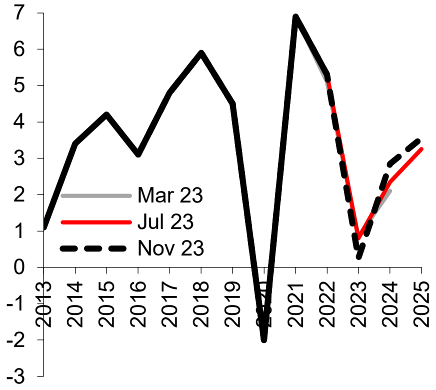
	GDP growth			
	Nov 22	**Mar 23**	**Jul 23**	**Nov 23**
2022	4.6 (±0.3)	-	-	-
2023	0.65 (±0.95)	0.85 (±0.95)	0.55 (±0.75)	0.25 (±0.35)
2024	2.05 (±1.05)	2.1 (±1)	2.35 (±0.95)	2.85 (±0.95)
2025	3.1 (±1.3)	3.15 (±1.15)	3.25 (±1.15)	3.55 (±1.15)
	CPI inflation			
2022	14.45 (±0.05)	-	-	-
2023	13.2 (±2.1)	11.85 (±1.65)	11.90 (±0.80)	11.4 (±0.1)
2024	5.85 (±1.75)	5.7 (±1.8)	5.25 (±1.55)	4.7 (±1.5)
2025	3.5 (±1.4)	3.5 (±1.5)	3.6 (±1.5)	3.75 (±1.55)

Source: NBP, Santander

Economic Analysis Department:

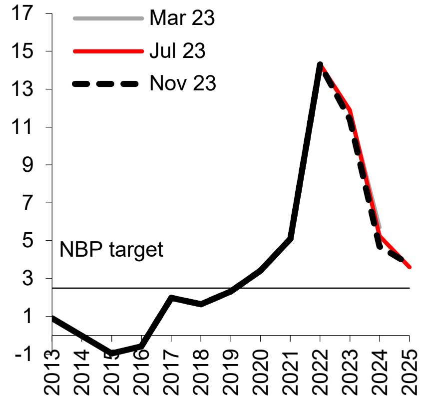
al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Bartosz Białas 22 534 1885
Cezary Chrapek, CFA +48 887 842 480
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

GDP growth according to NBP projections (projection mid-points)



Source: NBP, Santander

CPI growth according to NBP projections (projection mid-points)



Source: NBP, Santander

MPC post-meeting statement (changes vs. October statement):

The Council decided to ~~cut~~keep the NBP interest rates unchanged: ▪ reference rate ~~by 0.25 percentage points, i.e. to~~ at 5.75~~%. At the same time, the Council set the remaining NBP interest rates at the following levels:~~%; ▪ lombard rate at 6.25%; ▪ deposit rate at 5.25%; ▪ rediscount rate at 5.80%; ▪ discount rate at 5.85%. 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~~ the annual GDP growth in 2023 Q3 slowed down ~~further in 2023 Q3~~and was close to zero, while in Germany it was negative. Meanwhile, in the United States the ~~economic conditions remain relatively favourable. This is accompanied by a further decline~~annual GDP growth in 2023 Q3 accelerated and exceeded a long-term average. At the same time, inflation in many economies declines further, however, in most countries annual price growth remains elevated. The earlier decrease of commodity prices together with the easing of global supply chain disruptions reduce ~~price~~cost pressures, which is reflected in falling producer prices in many economies. ~~At the same time, core~~Core inflation in most economies is still elevated, although it gradually declines. Amid the weakened global economic conditions, also in Poland activity growth ~~declined also in Poland. Retail~~remains low, although some data signal its gradual recovery. In September 2023 retail sales and industrial output decreased in annual terms ~~in August 2023, however their decrease~~, however, the scale of retail sale decline was ~~somewhat~~ milder compared to the previous months. This was accompanied by a ~~month ago.~~higher growth in construction and assembly output. Despite the ~~slowdown in~~weakened 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 halted. According to Statistics Poland flash estimate, annual CPI inflation in ~~September~~October 2023 markedly declined again, falling to a level of ~~8.2~~6.5% y/y (compared to ~~10.1~~8.2% y/y in ~~August~~September 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~~Considering the ~~data by~~ Statistics 2/2 Poland data, it can be estimated that core inflation also decreased again in ~~2/2~~October. In September~~. In August~~ 2023 producer prices were again lower than a year ~~before~~ago, which confirms the fading of most external supply shocks and a reduction of cost pressures. Together with the 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, incoming data confirm weak demand and cost pressure in the economy as well as reduced inflation 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 is consistent with meeting the NBP inflation target in the medium term.~~The Council became acquainted with the results of the November 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 23 October 2023, there is a 50-percent probability that the annual price growth will be in the range of 11.3 – 11.5% in 2023 (against 11.1 – 12.7% in the July 2023 projection), 3.2 – 6.2% in 2024 (compared to 3.7 – 6.8%) and 2.2 – 5.3% in 2025 (compared to 2.1 – 5.1%). 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 – 0.6% in 2023 (against -0.2 – 1.3% in the July 2023 projection), 1.9 – 3.8% in 2024 (compared to 1.4 – 3.3%) and 2.4 – 4.7% in 2025 (compared to 2.1 – 4.4%). Inflation developments, both in the short and in the medium term, are fraught with uncertainty related i.a. to future fiscal and regulatory policies. The Council assesses that incoming data indicate low demand and cost pressures in the Polish economy, which amidst weakened economic conditions and falling inflation pressure abroad will support a gradual decline in domestic inflation. Considering the adjustment in the NBP interest rates introduced in recent months, together with uncertainty about a future course of fiscal and regulatory policies and their impact on inflation, the Council decided to keep the NBP interest rates unchanged. The Council judges that the current level of the NBP interest rates is conducive to 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.