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Economic Comment

Inflation is gone... but will be back

Piotr Bielski, tel. +48 691 393 119, piotr.bielski@santander.pl

The message from the NBP president's conference was roughly in line with our expectations: the MPC is not going to hurry with monetary policy adjustment, despite the likely inflation decline in the nearest months, awaiting the next medium-term NBP forecasts to be published in March, and in the subsequent months the decisions will be data-dependent.

The central bank expects the CPI inflation to fall significantly in the near future, to 3% or even 2.5% y/y in March, but then to rebound sharply in the second half of the year. This path is aligned with our current expectations and markedly lower than in the November NBP staff forecasts. Let us note that while we have recently moved our 1Q24 CPI forecast down by 3pp due to prolongation of 'anti-inflation shield', the NBP has already taken this factor into account in its earlier forecasts in July and November, it is thus difficult to explain why their forecasts went down by 3pp as well. The scale of the CPI rebound in 2H24 is "hard to predict", according to the NBP president, as it will depend heavily on the regulatory and administrative decisions, but Glapiński mentioned possible CPI range between 6% and 8% at the end of the year.

Four main factors that will push CPI higher listed by Glapiński included: (1) the expiry of zero VAT on food (that may lift CPI by 0.9pp), (2) the unfreeze of electricity, gas, heating prices (may add maximum up to 4pp to CPI, but probably less), (3) the new budget draft with higher deficit and spending on wages (potentially +0.1pp to CPI in 2024, +0.4pp in 2025), (4) reviving GDP growth, consumption, real wages, favouring higher inflation (impact on CPI difficult to estimate at the moment).

Interestingly, Glapiński said that because of CPI fluctuations driven by regulatory factors, the MPC will now focus mainly on core inflation, which will remain the key parameter for the economic situation assessment. According to Glapiński, core inflation should continue declining at a steady pace. However, later he mentioned the scale of CPI rebound after March, not core inflation, as the main driver of policy decisions.

The NBP president did not rule out an interest rate hike if the inflation rebound proves really significant, even though he deemed this scenario unlikely. He also said that interest rates could be reduced further if anti-inflation shields were not extinguished, although such scenario is impossible, according to Glapiński.

Overall, Glapiński's narrative broadly confirmed our intuition: the MPC is unlikely to change interest rates anytime soon. Definitely not before March, and results of March NBP staff forecasts are unlikely to encourage the policymakers to cut rates in an environment of accelerating GDP and rebounding inflation. We are expecting the first cut to take place in 4Q24.

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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 Biataś 22 534 1885
 Cezary Chrapek, CFA +48 887 842 480
 Marcin Luźniński +48 510 027 662
 Grzegorz Ogonek +48 609 224 857