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Economic Comment

Only a sustainable target hit counts

Marcin Luziński, tel. +48 510 027 662, marcin.luzinski@santander.pl

The MPC left rates unchanged in February, as expected. The reference rate is still at 5.75%. The MPC noted that demand and cost pressures in the Polish economy remain low, which will be conducive to a decline in inflation. At the same time, the Council stressed that the uncertainty related to fiscal policy and economic recovery remains high. These elements remain fairly unchanged versus the previous month. New elements are: 1/ the statement reads that the price growth will be fuelled by end of "anti-inflation shields" and public sector wage hikes, 2/ the MPC has slightly changed its statement's last paragraph. It used to state that the NBP will continue to take action to bring inflation down to the target. Now the MPC has added that it wants to bring inflation down to the target sustainably.

We think it is very likely that CPI will hit 2.5% y/y in March, before jumping higher again. We guess that the MPC added the word "sustainably" to acknowledge they are expecting the target to be reached temporarily, but this will not make them ease the monetary policy. The MPC is also paying more attention to factors, which can lift CPI in the future, while it did not really elaborate on weaker 4Q23 data, especially the ones related to private consumption, which could affect CPI the other way.

In general, we see the statement as fairly hawkish and are expecting the MPC to revert to monetary easing only at the end of the year and to cut rates by 50bp in total in 4Q24.

February post-meeting statement vs. the January one

The global economic conditions remain weakened, although they vary between the largest economies. ~~Incoming data indicate, that~~In 2023 Q4, the annual GDP growth in ~~economic activity in~~ the euro area~~, including~~ remained close to zero, and in Germany~~,~~ it was ~~still weak in 2023 Q4.~~again negative. Meanwhile, in the United States ~~the economic conditions remained~~ , GDP growth stayed relatively ~~favourable~~robust. Uncertainty about the activity outlook in the largest economies persists.

In the environment of the Polish economy the process of disinflation continues, however in many countries annual price growth remains elevated. Inflation is driven down by the reduction of cost pressures reflected in falling producer prices, and by the weak growth in economic activity. Under such conditions, in many economies core inflation declines, although it is still elevated.

In Poland, ~~incoming data signal~~according to Statistics Poland preliminary estimates, in 2023, GDP grew by 0.2%, which implies that annual economic activity growth increased in 2023 Q4, yet it remained relatively low. ~~Following an earlier increase in October 2023, retail sales and industrial output in November 2023 were lower than a year before.~~ At the same time~~, construction and assembly production continues to grow. Despite the weakened activity growth~~, the labour market situation remains good and unemployment is low. Although the number of working persons continues to be high, employment in the enterprise sector was lower in ~~November~~December 2023 than at the beginning of 2023.

~~According to the Statistics Poland flash estimate, annual~~Annual CPI inflation in December 2023 declined to 6.~~1~~2% (from 6.6% in November 2023). ~~Considering the Statistics Poland data, it can be estimated that the~~The decrease in inflation in annual terms was driven primarily by a fall in annual price growth of food and non-alcoholic beverages, as well as core inflation. However, an increase in annual price growth of energy had the opposite effect on annual inflation. In ~~November~~December 2023, producer prices were again considerably lower than a year ago, which confirms the fading of most external supply shocks and a reduction of cost pressures.

Together with the relatively low economic activity growth, it is conducive to a decline in inflation. The Council judges that the decrease in inflation is supported by the appreciation of the zloty exchange rate, which is consistent with the fundamentals of the Polish economy.

In the Council's assessment, incoming data indicate that despite the observed economic recovery, demand and cost pressures in the Polish economy remain low, which amidst weakened economic conditions and falling inflation pressure abroad ~~will support a gradual decline in~~supports lower domestic inflation. In ~~the coming months~~2024 Q1, annual CPI growth is likely to fall significantly, while the decline in core inflation will be slower. ~~At the same time~~

In subsequent quarters, however, inflation developments ~~in subsequent quarters~~ are associated with uncertainty, related in particular to the impact of fiscal and regulatory policies on price developments, as well as the pace of economic recovery in Poland. Should higher VAT on food products be restored and energy prices raised, inflation might increase significantly in the second half of 2024. At the same time, demand pressure in the economy will be stimulated by elevated growth in nominal wages, stemming i.a. from wage increases in the public sector.

Against this background, 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.

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 sustainably to the NBP inflation target in the medium term. NBP may intervene in the foreign exchange market.

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

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw. Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.