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Economic Comment

NBP less optimistic on GDP growth

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Polish MPC kept interest rates on hold, as expected. The post-meeting statement included the main results of the new NBP projection, which showed mid-point of CPI forecast at roughly similar levels as predicted in July (in 2025 even slightly higher than before, at 5.4%), while GDP forecasts revised lower: by 0.3pp in 2025, 0.5pp in 2025, 0.2pp in 2026. The optimism regarding future economic growth has decreased, but forecasts still imply that Poland should be able to grow at pace close to potential in the projection horizon. It is worth keeping in mind that the projection was based on the assumption that the current protective measures shielding households from higher energy prices expire completely at the end of this year. Thus, the actual inflation in 2025 may appear to be lower if the government implements some measures mitigating energy price growth (our forecast, assuming no change in energy costs at all, sees average inflation in 2025 at 4.7% vs NBP's 5.4%). In the next edition of NBP projection in March, such measures will be already taken into account, which will most likely lower 2025 inflation, but also may slightly boost consumption and GDP growth, and lift inflation in the following year.

Apart from the projection results, the key parts of the MPC statement were very similar as in the previous month. Yet, the MPC noticed that GDP growth in 3Q could be lower than earlier anticipated due to weak September data. The Council still believes that current level of interest rates warrants a return of inflation to the target, even though the impact of higher energy prices on inflation expectations is still seen as main uncertainty.

We still believe that the monetary easing cycle in Poland is more likely to start near the middle of 2025 than near March meeting – as long as GDP growth does not slow well below 3% for good, the central bank – at least in our view - would prefer to wait with rate cuts until it sees the evidence of inflation trend's turnaround in the available CPI data. And the latter will take place only after the CPI peak in March. We expect to hear more guidance on monetary policy outlook at the NBP president's press conference on Thursday.

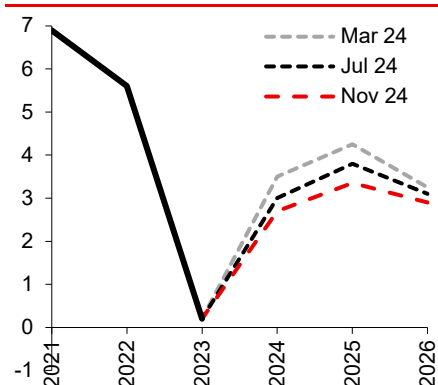
Inflation and GDP projections in subsequent Inflation reports

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

	GDP growth			
	Nov 23	Mar 24	Jul 24	Nov 24
2023	0.25 (±0.35)			
2024	2.85 (±0.95)	3.50 (±0.80)	3.00 (±0.70)	2.70 (±0.4)
2025	3.55 (±1.15)	4.25 (±1.05)	3.80 (±1.00)	3.35 (±0.95)
2026		3.25 (±1.25)	3.10 (±1.20)	2.90 (±1.1)
	CPI inflation			
2023	11.4 (±0.1)			
2024	4.7 (±1.5)	3.55 (±0.75)	3.70 (±0.60)	3.65 (±0.05)
2025	3.75 (±1.55)	3.60 (±1.40)	5.25 (±1.35)	5.40 (±1.2)
2026		2.90 (±1.40)	2.80 (±1.50)	2.75 (±1.35)

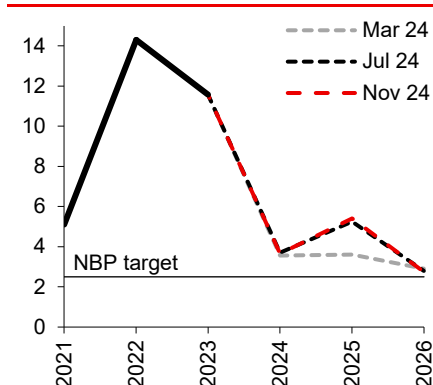
Source: NBP, Santander

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. October statement):

The economic conditions in the environment of the Polish economy are still weakened. In 2024 Q3, the annual GDP growth in the euro area, including – despite some acceleration – was moderate, and in Germany, presumably continued to be low: negative. Meanwhile, in the United States the annual economic activity growth remains/remained relatively high, despite some deterioration in labour market conditions. Uncertainty about the activity outlook in the largest economies persists.

Inflation in the major advanced economies is running close to the central banks' inflation targets. Inflation is driven down by the reduction of cost pressures reflected in low producer price growth, and as well as by the weak activity growth in some economies: and a fall in energy prices. At the same time, core inflation is running above still higher than headline inflation amid elevated growth in services prices.

In Poland, a gradual economic recovery continues: incoming data suggest that in 2024 Q3 annual GDP growth could have been somewhat lower than in 2024 Q2. In August/September, in September 2024 retail sales was higher, white as well as industrial production and construction and assembly output were lower than a year ago.

In the labour market unemployment remains low and the number of working persons continues to be high, although employment in the enterprise sector in August/September 2024 was lower than a year ago. At the same time, the wage growth is still running at the high level.

According to the Statistics Poland flash estimate, annual CPI inflation in September/October 2024 was 4.95.0% (against 4.39% in August/September). The rise in inflation in recent months since mid-2024 has been mainly a result of increases in administered prices of energy carriers, as well as – albeit to a lesser extent – an increase in annual growth in prices of food and non-alcoholic beverages. Considering the preliminary Statistics Poland data, it can be estimated that inflation net of food and energy prices also rose, but remained lower than CPI inflation. In August 2024, the annual fall in producer prices remained significant:

Considering the preliminary Statistics Poland data, it can be estimated that in October inflation net of food and energy prices did not visibly change, and in particular that growth in services prices probably remained elevated. The significant fall in producer prices in annual terms persists.

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 22 October 2024, there is a 50-percent probability that the annual price growth will be in the range of 3.6 – 3.7% in 2024 (against 3.1 – 4.3% in the July 2024 projection), 4.2 – 6.6% in 2025 (compared to 3.9 – 6.6%) and 1.4 – 4.1% in 2026 (compared to 1.3 – 4.1%). At the same time, the annual GDP growth – according to the projection – will be with a 50-percent probability in the range of 2.3 – 3.1% in 2024 (against 2.3 – 3.7% in the July 2024 projection), 2.4 – 4.3% in 2025 (compared to 2.8 – 4.8%) and 1.7 – 4.0% in 2026 (compared to 1.9 – 4.3%).

In the current round, inflation projection is associated with substantial uncertainty, related to price developments of energy carriers for households, which are to the significant extent determined by regulatory measures. The indicated probability intervals are spanned around the central path of a scenario assuming – in line with the currently applicable legal regulations – the further unfreezing of prices of energy carriers for households at the beginning of 2025. At the same time, the probability of inflation running below the central path in 2025 is higher than the probability of inflation running above it.

In the Council's assessment, inflation is currently significantly boosted by rising energy carriers' prices and by other regulatory factors. The price pressure in the domestic economy is also stimulated by the marked wage growth, stemming i.a. from wage increases in the public sector. In the Council's assessment, incoming data indicate that despite the observed economic recovery at the same time, demand and cost pressures in the Polish economy remain relatively low, which amidst weakened economic conditions and lower inflation pressure abroad curbs domestic inflation pressure. The Council judges that consumer price growth is also constrained by the appreciation of the zloty exchange rate, which is consistent with the fundamentals of the Polish economy. However, price pressure in the domestic economy is stimulated by a marked wage growth, stemming i.a. The earlier appreciation of the zloty exchange rate acts in the same direction from wage increases in the public sector. Alongside that, the rise in prices of energy carriers increases inflation significantly.

This factor will continue to affect the annual in the coming quarters inflation rate will remain elevated, and in the coming quarters case of a further increase in energy prices at the beginning of 2025, it will rise. When the effects of the energy price increase fade – amid and amidst the expected slower wage growth – under the current NBP interest rates level – inflation should return to the medium-term NBP target, although the impact of higher energy prices on inflation expectations is an uncertainty factor. The inflation developments over the medium term will be also affected by the further fiscal and regulatory policy measures, the pace of economic recovery in Poland and the labour market conditions.

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.

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