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Economic Comment

Gloomy outlook, policy unchanged

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The Monetary Policy Council kept interest rates unchanged, with the main reference rate at 0.1%, Lombard rate at 0.5% and deposit rate at 0.0%. The post-meeting press conference was cancelled again. As always in July, the Council received the updated NBP economic projections, with the main results listed in the post-meeting press release (details in the table below). The forecasts assume a deep recession in 2020 and only a limited GDP rebound in 2021, which is a more gloomy scenario than represented by the market consensus or the recent IMF and EC's reports. The central bank also foresees inflation to stabilize well below the 2.5% official target in 2021-22.

Apart from the results of the NBP forecasts, the official MPC press release was almost unchanged versus June. The statement that the pace of economic recovery may be limited by "the lack of visible zloty exchange rate adjustment to the global pandemic-driven shock and to the monetary policy easing introduced by NBP" was repeated. There was no straightforward guidance regarding the next monetary policy decisions in the statement. However, we see the document as a confirmation of the view that after applying large scale monetary adjustment, there is little willingness in the MPC to go towards negative interest rates (unless there is further significant deterioration of economic outlook). We expect main interest rates to remain on hold in 2020-21. We think the NBP may be more active on the non-conventional front (for example, boosting the QE programme), especially in case of further strengthening of the zloty.

The new *Inflation Report* with more details about the NBP economic forecasts will be published on Friday at 10:00CET.

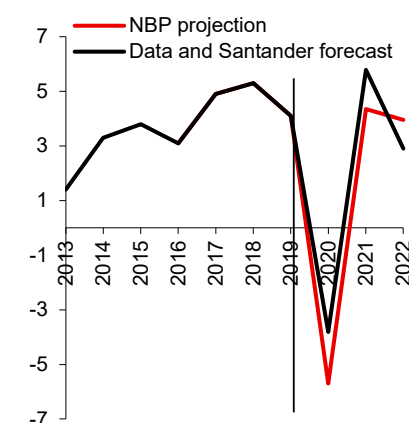
Inflation and GDP projections in subsequent Inflation reports

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

	GDP growth			
	Jul 19	Nov 19	Mar 20	Jul 20
2019	4.5 (±0.6)	4.3 (±0.4)	-	-
2020	3.9 (±0.9)	3.55 (±0.85)	3.2 (±0.7)	-5.7 (±1.5)
2021	3.35 (±0.95)	3.25 (±0.95)	3 (±0.9)	4.35 (±2.25)
2022	-	-	2.75 (±0.95)	3.95 (±2.05)
	CPI inflation			
2019	2.0 (±0.3)	2.3 (±0.1)	-	-
2020	2.8 (±0.9)	2.85 (±0.75)	3.65 (±0.55)	3.25 (±0.35)
2021	2.4 (±1.1)	2.6 (±1.0)	2.65 (±0.95)	1.25 (±0.95)
2022	-	-	2.35 (±1.05)	1.75 (±1.15)

Source: NBP, Santander

GDP growth according to NBP projection (central path) vs Santander forecast



Source: NBP, Santander

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MPC statement (indication of changes as compared to June statement)

The incoming ~~Incoming~~ data confirm that the ~~COVID Covid~~-19 pandemic contributed to a fall in global economic activity, including ~~to a~~ recession in the economies being Poland's major ~~of Poland's main~~ trading partners. This was ~~At the same time, along with a gradual easing of the containment measures, sentiment has improved in many economies,~~ accompanied by a deterioration in labour market situation and a sharp weakening of consumer and business sentiment. In order to mitigate the negative economic effects of the pandemic, fiscal measures have been introduced to alleviate the fall ~~recovery~~ in households' and enterprises' income as well as to stimulate economic ~~economic~~ activity. At the same time, monetary policy has been eased by – inter alia – lowering interest rates and pursuing asset purchases. The recent period, together with loosening ~~Current forecasts indicate that the second half of restrictions imposed in order to contain the pandemic in many countries, has seen a gradual.~~ 2020 will see a further improvement in sentiment ~~the global economic conditions, although the level of activity will be lower than before the pandemic. Uncertainty remains regarding the pace and robustness of the recovery in the global economic conditions in the coming quarters.~~

Recent forecasts indicate that in ~~A further improvement in the second half of 2020~~ global economic conditions should improve, though the level of activity will be lower than before supported by the fiscal measures introduced as well as the ~~pandemic.~~ ~~At accompanying easing of monetary policy, including the same time, there is uncertainty regarding the pace~~ interest rate cuts and robustness of the improvement in global economic conditions in the following quarters ~~asset purchases.~~

Monetary policy easing and fiscal stimulus packages introduced in major advanced economies, along with ~~Recent weeks have seen~~ a certain improvement in sentiment, contributed to increases of some asset prices in the international ~~in global~~ financial markets which ~~This was also reflected in the appreciation of some countries' currencies. Moreover, in the recent period the fall accompanied by an increase in the prices of some commodities has come to a halt, although they are still considerably, which, however, remain significantly lower than at the beginning of the year. This, together~~ Along with weaker economic activity, contributes ~~this contributed~~ to a decline in ~~the~~ inflation ~~staying at low levels~~ in many countries, including Poland's main trading partners.

In Poland, the ~~April data point to a significant fall in economic activity, a decrease in wages and employment in enterprises as well as weak consumer and business sentiment. Yet, the recent weeks have seen incoming information suggests~~ a gradual lifting of economic activity restrictions which has translated into some improvement in sentiment ~~and a recovery in economic activity, which, however, remains lower than before the pandemic. This has been is~~ accompanied by a considerable further, although limited, fall in employment and a marked decline in wage growth in enterprises. According to the Statistics Poland (GUS) flash estimate, inflation stood at 3.3% y/y in June.

Over the near term, a ~~A~~ further recovery in economic activity may be expected. ~~Apart from the likely further loosening of the pandemic-related restrictions, this over the coming months. This will be supported by an improvement in the economic situation in the environment of the Polish economy and the economic policy measures, including the easing of NBP's monetary policy easing by NBP that mitigates the fall in employment, supporting incomes of households and financial situation of enterprises. The, At the same time, the scale of the expected recovery could, however, in activity may be curbed limited~~ by uncertainty about the consequences effects of the pandemic, lower incomes and weaker sentiment of economic agents than in previous years. The pace of the economic recovery could also be mitigated limited by the lack of visible zloty exchange rate adjustment to the global pandemic-driven shock and to the monetary policy easing introduced by NBP.

The Council became acquainted with the results of the July projection of inflation and GDP, prepared under the assumption of unchanged NBP interest rates. The July projection takes into account data and information published up to 30 June 2020. In line with the July projection based on the NECMOD model, there is a 50-percent probability that the annual price growth will be in the range of 2.9–3.6% in 2020 (against 3.1–4.2% in the March 2020 projection), 0.3–2.2% in 2021 (compared to 1.7–3.6%) and 0.6–2.9% in 2022 (compared to 1.3–3.4%). At the same time, the annual GDP growth – according to this projection – will be with a 50-percent probability in the range of -7.2 – -4.2% in 2020 (against 2.5–3.9% in the March 2020 projection), 2.1–6.6% in 2021 (compared to 2.1–3.9%) and 1.9–6.0% in 2022 (compared to 1.8–3.7%).

NBP will continue to purchase government securities and government-guaranteed debt securities ~~in on~~ the secondary market as part of the structural open market operations. These operations are aimed at changing the long-term liquidity structure in the banking sector, ensuring the liquidity in secondary markets for the purchased securities and enhancing the impact of the NBP interest rate cuts on the economy, i.e. strengthening the monetary policy transmission mechanism. The timing and scale of the operations will depend on the market conditions.

Furthermore, NBP will also continue to offer bill discount credit aimed at refinancing loans granted to enterprises by banks.

The NBP monetary policy easing mitigates the negative economic impact of the pandemic, limiting the scale of the fall in economic activity and supporting incomes of households and enterprises. Consequently, it alleviates the fall in employment and deterioration in financial situation of enterprises, thus being conducive to quicker economic recovery after the abatement of the pandemic. The measures undertaken by NBP reduce the risk of inflation falling below the NBP inflation target in the medium term and – due to their positive impact on financial situation of debtors – are conducive to enhancement of financial system stability.

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