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Economic Comment

Much ado about nothing

Piotr Bielski, tel. +48 22 534 18 87, piotr.bielski@santander.pl

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 updated inflation projections were lifted notably for 2021-2022, with mid-points now consistent with the official 2.5% target. But the most important change, it seems, was a significant deterioration of GDP growth outlook for 2021 (mid-point down to 2.7%, vs previous 4.4% and current market consensus c.4%). At the same time, forecasts for 2020 and 2022 were improved (see details in the table below). Still, despite much more pessimistic outlook for next year's economic growth, the general tone of the official statement did not change dramatically, and it does not seem to herald any looming change in monetary policy. The central bank has recognized the increasing risk for economic growth going forward, stemming from the rising new wave of pandemic and the related restrictions. Also, it repeated the sentence that the pace of recovery may be limited by the lack of clear and persistent zloty weakening, despite the pandemic shock and monetary policy easing made so far. It confirms our view about still large MPC's tolerance for further zloty depreciation.

Overall, we do not change our view that the main interest rates will remain on hold at least until the end of the MPC's term of office (early 2022). .

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

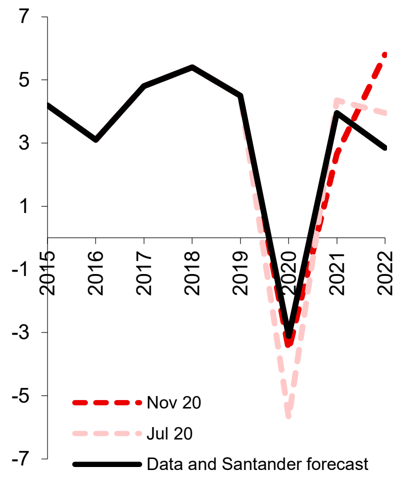
Inflation and GDP projections in subsequent Inflation reports

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

	GDP growth			
	Nov 19	Mar 20	Jul 20	Nov 20
2019	4.3 (±0.4)	-	-	-
2020	3.55 (±0.85)	3.2 (±0.7)	-5.7 (±1.5)	-3.55 (±0.55)
2021	3.25 (±0.95)	3 (±0.9)	4.35 (±2.25)	2.65 (±1.85)
2022	-	2.75 (±0.95)	3.95 (±2.05)	5.8 (±2)
	CPI inflation			
2019	2.3 (±0.1)	-	-	-
2020	2.85 (±0.75)	3.65 (±0.55)	3.25 (±0.35)	3.45 (±0.05)
2021	2.6 (±1.0)	2.65 (±0.95)	1.25 (±0.95)	2.5 (±0.7)
2022	-	2.35 (±1.05)	1.75 (±1.15)	2.6 (±1)

Source: NBP, Santander

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



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 22 534 18 87
Marcin Luziński + 48 22 534 18 85
Wojciech Mazurkiewicz + 48 22 534 18 86
Grzegorz Ogonek + 48 22 534 19 23
Marcin Sulewski, CFA + 48 22 534 18 84

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

Incoming data ~~confirmed~~confirm that following a sharp fall in global GDP in 2020 Q2, ~~the~~ economic activity ~~has been~~was recovering in ~~recent months.~~Q3. The improvement in the global economic conditions ~~has~~had been supported by the earlier easing of the containment restrictions, ~~introduced~~the fiscal measures introduced, as well as the accompanying easing of monetary policy, including interest rate cuts and asset purchases~~.~~ by central banks. Despite the rebound, economic activity in most countries ~~remains~~remained lower than before the outbreak of the pandemic.

Recently, however, there has been a ~~renewed~~significant increase in the number of ~~new Covid~~COVID-19 infections. As a consequence, ~~the~~many countries have once again tightened the pandemic restrictions. At the same time uncertainty about the further course of the pandemic as well as ~~the pace and robustness of the recovery in the global~~ future economic conditions in the global economy has ~~also~~ increased.

The growing number of new ~~Covid~~COVID-19 cases has also contributed to ~~some~~a deterioration in global financial market sentiment, mirrored ~~inter alia~~, among others, in a depreciation of emerging market currencies. ~~Prices of commodities on the global markets~~Global commodity prices remain significantly lower than at the beginning of the year. Along with weaker economic activity, this has contributed to inflation staying at low levels in many countries, including Poland's main trading partners.

In Poland, the incoming data ~~indicated~~also confirm a ~~recovery~~strong rebound in economic activity in 2020 Q3, after a significant fall in GDP in 2020 Q2. ~~At the same time~~This is indicated by, in particular, data on retail sales and ~~production in August suggested that the economic recovery has slowed down compared to previous months.~~industrial output in September. This was accompanied by a ~~stabilisation in the number of people employed in enterprise sector, along with~~certain improvement in the labour market situation, including higher wage growth in ~~this sector staying significantly below its pre-pandemic level.~~the corporate sector. At the same time, inflation in ~~September~~October – according to the Statistics Poland flash estimate – ~~stood at~~decreased to 3.0% y/y (compared to 3.2% y/y~~.~~ in September).

~~A further recovery in economic activity may be expected over the coming months, however its pace may be slower than observed so far. The improvement in the economic situation will be supported by economic policy measures, including the easing of NBP's monetary policy. At the same time, an increase in activity may be curbed by high~~The sharp increase in the number of new COVID-19 infections in the recent period and the tightening of the pandemic restrictions will contribute to a further deterioration in the economic conditions in 2020 Q4. In particular, domestic economic conditions will be held back by a decline in activity in the services sector, restrictions introduced in trade, increased uncertainty about the further course and effects of the pandemic and ~~weaker sentiment of~~ a deterioration in economic agents' sentiment. Domestic economic activity may be also limited by economic ~~agents than in previous years. The economic conditions in~~ downturn in the environment of the Polish economy ~~will also have a significant impact on the activity growth. The pace of the economic recovery could also be limited by~~ as well as by the lack of a visible and more durable zloty exchange rate adjustment to the global pandemic-driven shock and to the monetary policy easing introduced by NBP. In turn, the fall in the activity will be limited by the economic policy measures, including the easing of NBP's monetary policy.

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 4 November 2020, there is a 50-percent probability that the annual price growth will be in the range of 3.4–3.5% in 2020 (against 2.9–3.6% in the July 2020 projection), 1.8–3.2% in 2021 (compared to 0.3–2.2%) and 1.6–3.6% in 2022 (compared to 0.6–2.9%). At the same time, the annual GDP growth – according to this projection – will be with a 50-percent probability in the range of -4.1 – -3.0% in 2020 (against -7.2 – -4.2% in the July 2020 projection), 0.8–4.5% in 2021 (compared to 2.1–6.6%) and 3.8–7.8% in 2022 (compared to 1.9–6.0%)

NBP will continue to purchase government securities and government-guaranteed debt securities 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 the 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~~ offer bill discount credit aimed at refinancing loans granted to enterprises by banks

~~The NBP~~NBP's monetary policy ~~easing~~ mitigates the negative economic impact of the pandemic, supports economic ~~recovery~~activity and ~~reduces the risk of~~stabilises inflation ~~falling below~~at the level consistent with the ~~NBP~~NBP's medium-term inflation target ~~in the medium term.~~. Due to its positive impact on the financial situation of debtors, it is also conducive to the strengthening of ~~the~~ financial system stability.

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.