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# Economic Comment

## More optimistic NBP forecasts

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The MPC kept interest rates on hold, the reference rate at 5.75%, as expected.

The results of the new NBP projections, revealed in the MPC statement, show more optimistic scenario of GDP growth in 2024-2025 (mid-point at 3.50% and 4.25%, respectively) and lower inflation trajectory: 3.55% average in 2024, 3.60% in 2025, 2.9% in 2026. Such an average CPI in 2026 suggests in our view that inflation is back at the NBP target of 2.50% at the end of 2026.

The projections are still based on the unrealistic assumption that the anti-inflation shields will be maintained until the end of the forecast horizon. We are eager to hear the NBP's explanation of the strong downward revision in the CPI starting point versus the November forecasts. Our own forecasts moved down as compared to November mostly due to the extension of anti-inflation shields (until end of March and June, respectively), but note that the NBP did not change its assumptions in this matter.

The MPC statement admits that risk due to the assumption on anti-inflation shields to the inflation projection is highly asymmetric to the upside and inflation may rise significantly in 2H2024. It also points that rapid wage growth would favour higher inflationary pressure in the medium term. The current level of interest rates is still seen as consistent with bringing inflation to the target in the medium run, and next decisions are said to be determined on future information about inflation outlook and economic activity.

Overall, we see the MPC's press release as a confirmation that the Council does not intend to ease monetary policy anytime soon. Since November, we have observed a change in the MPC's reaction function and a greater focus than before on the medium-term inflation outlook, the risk of a prolonged return of inflation to target due the resilience of the economy, tensions in the labour market, and the fairly expansionary fiscal policy. The increasingly optimistic outlook for economic growth and an inflation forecast that, while converging to the target in the medium term, is based on assumptions that are unlikely to withstand confrontation with reality, will help to justify keeping monetary policy unchanged.

While waiting for President Glapiński's conference on Thursday at 15:00 CET, which may offer more forward guidance, we continue to assume that interest rates in Poland will remain unchanged for at least in the nearest 12 months. This scenario is supported by the fact that the start of the easing cycle by major central banks (Fed, ECB) is not getting any closer, but rather drifting further away.

### Inflation and GDP projections in subsequent Inflation reports

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

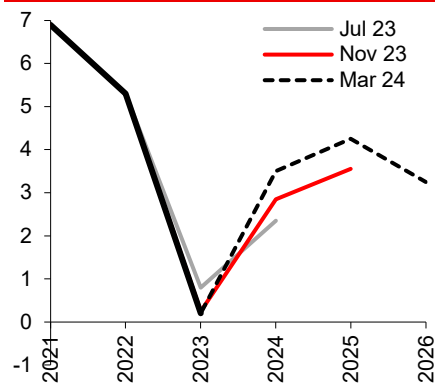
	GDP growth			
	Mar 23	Jul 23	Nov 23	Mar 24
2023	0.85 (±0.95)	0.55 (±0.75)	0.25 (±0.35)	
2024	2.1 (±1)	2.35 (±0.95)	2.85 (±0.95)	3.50 (±0.80)
2025	3.15 (±1.15)	3.25 (±1.15)	3.55 (±1.15)	4.25 (±1.05)
2026				3.25 (±1.25)
	CPI inflation			
2023	11.85 (±1.65)	11.90 (±0.80)	11.4 (±0.1)	
2024	5.7 (±1.8)	5.25 (±1.55)	4.7 (±1.5)	3.55 (±0.75)
2025	3.5 (±1.5)	3.6 (±1.5)	3.75 (±1.55)	3.60 (±1.40)
2026				2.90 (±1.40)

Source: NBP, Santander

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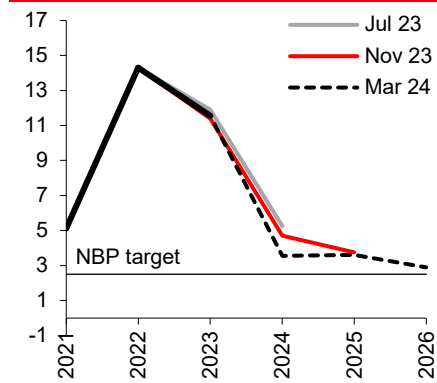
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**GDP growth according to NBP projections  
(projection mid-points)**



Source: NBP, Santander

**CPI growth according to NBP projections  
(projection mid-points)**



Source: NBP, Santander

**MPC post-meeting statement (changes vs. February statement):**

The global economic conditions remain weakened, although they vary between the largest economies. In 2023 Q4, the annual GDP growth in the euro area remained close to zero, and in Germany it was again negative. Meanwhile, in the United States, GDP growth stayed relatively 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 ~~also~~ declines, although it is still elevated.

In Poland, ~~according a gradual economic recovery continues, albeit annual GDP growth remains relatively low. According~~ to Statistics Poland preliminary estimates ~~estimate~~, in 2023, Q4 GDP grew by 1.0-2%, which implies that annual %. ~~The GDP growth was positively affected by the contribution of net exports and investment. At the same time, the consumption growth declined. Incoming data indicate an increase in economic activity growth increased in 2023 Q4, yet it remained relatively low. At the same time, the in 2024 Q1.~~

~~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 ~~in January 2024 was lower in December 2023 than a year ago. At the beginning of 2023 same time, annual wage growth rose.~~

~~Annual~~ According to the Statistics Poland preliminary data, annual CPI inflation in ~~December 2023~~ January 2024 declined to 6.23.9% (from 6.62% in November ~~December~~ 2023). The decrease in inflation in annual terms was driven ~~primarily~~ by a fall in ~~annual price growth~~ all major components of food and non-alcoholic beverages, as well as core inflation. ~~However, an increase the CPI basket, in annual price growth of particular energy had the opposite effect on annual inflation carriers. In December 2023, January 2024, the fall in producer prices were again considerably lower than a year ago deepened,~~ 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.

~~The Council became acquainted with the results of the March 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 15 February 2024, there is a 50-percent probability that the annual price growth will be in the range of 2.8 – 4.3% in 2024 (against 3.2 – 6.2% in the November 2023 projection), 2.2 – 5.0% in 2025 (compared to 2.2 – 5.3%) and 1.5 – 4.3% in 2026. At the same time, the annual GDP growth – according to the projection – will be with a 50-percent probability in the range of 2.7 – 4.3% in 2024 (against 1.9 – 3.8% in the November 2023 projection), 3.2 – 5.3% in 2025 (compared to 2.4 – 4.7%) and 2.0 – 4.5% in 2026. In the current round, inflation projection is associated with substantial uncertainty, related in particular to the horizon over which the shielding measures on energy and food prices will apply as well as to their design. Due to the assumption that these measures will continue in their current form over the projection horizon, the balance of risk for inflation is markedly asymmetric. In the case of 2024, the probability that annual price growth will run above the 50-percent confidence interval is 43%, while the probability that it will run below this range is 7%.~~

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 supports lower domestic inflation. ~~In 2024 Q1, As a result, it is expected that in the coming months annual CPI growth is likely to fall significantly, while will run at the level consistent with the NBP inflation target. At the same time, the decline in core inflation will be slower and core inflation will remain above CPI inflation.~~

In subsequent quarters, ~~however,~~ inflation developments are, ~~however,~~ associated with ~~substantial~~ 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 ~~and labour market conditions~~. Should higher VAT on food products be restored and energy prices raised, inflation might increase significantly in the second half of 2024. ~~At~~ Alongside that, over the ~~same time, medium term~~ demand pressure in the economy will be stimulated by ~~elevated wage 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.

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