

Economic Comment

Inflation temporarily higher, interest rates on hold

Piotr Bielski, tel. 691 393 119, piotr.bielski@santander.pl

Polish MPC kept interest rates on hold, as expected, with the main reference rate still at 5.75%.

The official post-meeting statement reveals the main results of the new NBP projection, showing slightly higher average CPI inflation in 2024 (mid-point 3.7% vs 3.55% in March), significantly higher in 2025 (5.25% vs 3.60%) and a notch lower in 2026 (2.8% vs 2.9%) - as compared to the scenario from the previous projection, which assumed the full extension of the anti-inflation shields. GDP forecasts have been lowered: in 2024 to 3.0% vs earlier 3.5%, in 2025 3.8% vs 4.25%, in 2026 3.1% vs. 3.25%.

The official communiqué repeats the judgement from the previous months that in the MPC's view despite the observed economic recovery, demand pressure and cost pressure have been quite low, although elevated wage growth is conducive to higher demand pressure. Describing the inflation outlook the MPC no longer quoted uncertainty regarding regulatory changes, replacing it with a statement that inflation will rise above the NBP target under the impact of higher energy costs. After expiration of energy hike impact, inflation should return to the mid-term NBP target under the current interest rate level, according to the statement, however there is some uncertainty regarding behaviour of inflation expectations, fiscal policy, pace of economic revival and labour market situation.

Overall, the statement seems to confirm our expectations that the new projection gives no new arguments for the MPC to change the monetary policy stance. We still think the Polish central bank will remain in wait-and-see mode in the coming months, keeping interest rates on hold probably until mid-2025.

Thursday's conference of NBP governor Adam Glapiński should be in similarly hawkish tone as the last one in June, in our view.

Inflation and GDP projections in subsequent Inflation reports

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

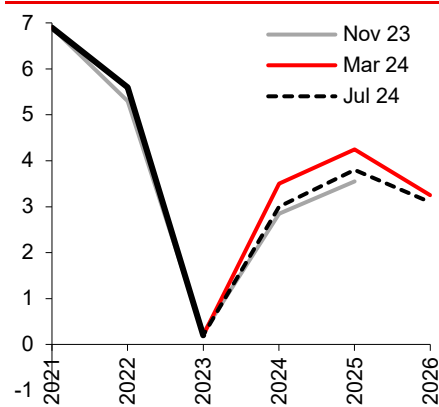
	GDP growth			
	Jul 23	Nov 23	Mar 24	Jul 24
2023	0.55 (±0.75)	0.25 (±0.35)		
2024	2.35 (±0.95)	2.85 (±0.95)	3.50 (±0.80)	3.00 (±0.70)
2025	3.25 (±1.15)	3.55 (±1.15)	4.25 (±1.05)	3.80 (±1.00)
2026			3.25 (±1.25)	3.10 (±1.20)
	CPI inflation			
2023	11.90 (±0.80)	11.4 (±0.1)		
2024	5.25 (±1.55)	4.7 (±1.5)	3.55 (±0.75)	3.70 (±0.60)
2025	3.6 (±1.5)	3.75 (±1.55)	3.60 (±1.40)	5.25 (±1.35)
2026			2.90 (±1.40)	2.80 (±1.50)

Source: NBP, Santander

Economic Analysis Department:

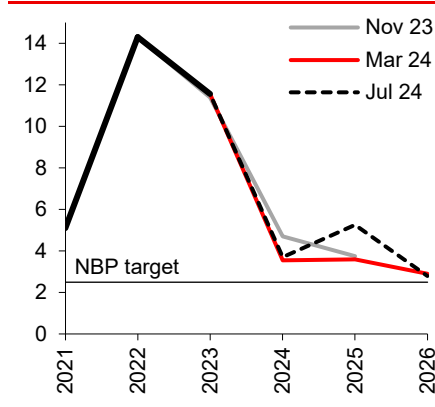
al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 691 393 119
 Bartosz Białas +48 517 881 807
 Cezary Chrapek, CFA +48 887 842 480
 Marcin Luźniński +48 510 027 662
 Grzegorz Ogonek +48 609 224 857

**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. June statement):

The economic conditions in the environment of the Polish economy **remainare still** weakened, despite some recent improvement. **In the first half of 2024-Q1**, the annual GDP growth in the euro area was **probably** low, while in the United States it remained relatively high. Uncertainty about the activity outlook in the largest economies persists.

Inflation in the major advanced economies – after a marked decline in 2023 – was still running slightly above the central banks inflation targets in recent months. Inflation was driven down by the reduction of cost pressures reflected in low producer price growth, and by the weak activity growth in many economies. At the same time, core inflation remains above headline inflation amid elevated growth in services prices.

In Poland, a gradual economic recovery continues. **According to Statistics Poland preliminary estimate, GDP grew, as indicated by 2.0% y/y in 2024-Q1 (compared to 1.0% y/y in 2023-Q4).** The GDP growth was positively affected primarily by a rebound in consumption demand. By contrast, annual investment growth declined markedly. **In April 2024, industrial production and the retail sales were higher growth, while activity in the industry and construction and assembly output was lower than a year ago. The sectors is still weakened. In the labour market situation remains good and unemployment is remains low. Although and the number of working persons continues to be high, although employment in the enterprise sector in AprilMay 2024 was lower than a year ago. At the same time, the wage growth continues to beis still running on the high level.**

According to the Statistics Poland flash estimate, annual CPI inflation in **MayJune 2024** was 2.56% (against 2.45% in April 2024). **In May 2024, annual energy price growth, including fuels, increased. In turn, In June, annual growth in prices of food and non-alcoholic beverages increased, while annual energy price growth declined slightly.** Considering the Statistics Poland data, it can be estimated that inflation net of food and energy prices **decreased again in May 2024. June was lower than in the previous month.** In **AprilMay 2024**, the annual fall in producer prices remained significant, which confirms the fading of most external supply shocks and a reduction of cost pressures. Together with the relatively low – despite some acceleration – economic activity growth, it limits the growth in consumer prices. The Council judges that inflation is also curbed 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 July 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 14 June 2024, there is a 50-percent probability that the annual price growth will be in the range of 3.1 – 4.3% in 2024 (against 2.8 – 4.3% in the March 2024 projection), 3.9 – 6.6% in 2025 (compared to 2.2 – 5.0%) and 1.3 – 4.1% in 2026 (compared to 1.5 – 4.3%). 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 – 3.7% in 2024 (against 2.7 – 4.3% in the March 2024 projection), 2.8 – 4.8% in 2025 (compared to 3.2 – 5.3%) and 1.9 – 4.3% in 2026 (compared to 2.0 – 4.5%).

In the Council's assessment, incoming data indicate that despite the observed economic recovery, demand and cost pressures in the Polish economy remain **relatively low**, which amidst weakened economic conditions and lower inflation pressure abroad curbs domestic inflation. **As a result, in 2024-Q2 annual CPI growth will run at the level consistent with the NBP inflation target. This will be accompanied by lower than in the previous quarters inflation net of food and energy prices, although – due to elevated growth in services prices – it will stay above the CPI inflation pressure. However, demand pressure in the domestic economy is stimulated by a marked wage growth, stemming i.a. from wage increases in the public sector.**

In **subsequentthe coming quarters, the consumer price growth is likely to increase and will be running above the NBP inflation target, which will be driven by the raised energy prices. When the effects of the energy price increase fade – amid the current NBP interest rates level – inflation should return to the medium-term NBP target, although the impact of higher energy prices on the inflation expectations is an uncertainty factor. The inflation developments are, however, associated with substantial uncertainty, related i.a. to the impact of over the medium term will be also affected by the further fiscal and regulatory policies on price developments, including on inflation expectations, as well as to the policy measures, the pace of economic recovery in Poland and the labour market conditions. Should energy prices be raised, inflation will increase in the second half of 2024. Alongside that, over the medium term, demand pressure in the economy will be stimulated by a marked wage growth, 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.

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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>.