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Economic Comment

New forecasts do not bring rate cuts forward

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Polish MPC kept rates unchanged at its March meeting, as expected. The statement was again barely changed, but seemed a tad more hawkish, as the MPC members acknowledged the rising aggregate demand. New NBP staff forecasts showed a higher GDP path – the mid-point of 50% confidence band at 3.75% in 2025 vs 3.35% previously and 2.95% in 2026 vs 2.85% previously, 2027, shown for the first time, is expected at surprisingly low 2.3%. CPI forecasts went down for 2025 to 4.9% from 5.4%, but up for 2026 to 3.4% from 2.75%. Expectations for 2027 were set at 2.5% - in line with the NBP target. The November 2024 forecast was built under assumption that energy prices will unfreeze in early 2025, and we assume that the prolongation of the freeze until September 2025 is one of main drivers behind change in CPI path in 2025 and 2026. Details of the forecast are to be presented on Friday or Monday. Higher GDP growth as well as higher inflation in the medium term support the MPC's, and especially NBP governor's view not to rush with interest rate cuts. We are expecting the first cut to be implemented in July.

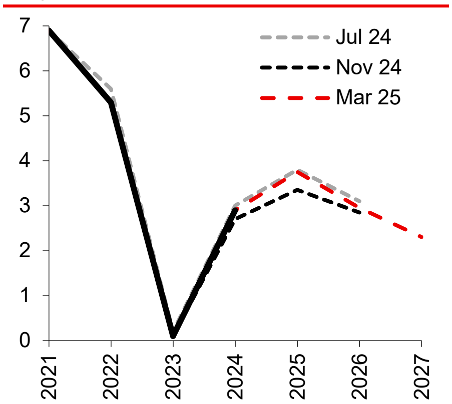
Inflation and GDP projections in subsequent Inflation reports

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

	GDP growth			
	Mar 24	**Jul 24**	**Nov 24**	**Mar 25**
2024	3.50 (±0.80)	3.00 (±0.70)	2.70 (±0.4)	-
2025	4.25 (±1.05)	3.80 (±1.00)	3.35 (±0.95)	3.75 (±0.85)
2026	3.25 (±1.25)	3.10 (±1.20)	2.85 (±1.1)	2.95 (±1.05)
2027	-	-	-	2.30 (±1.2)
	CPI inflation			
2024	3.55 (±0.75)	3.70 (±0.60)	3.65 (±0.05)	-
2025	3.60 (±1.40)	5.25 (±1.35)	5.40 (±1.2)	4.90 (±0.8)
2026	2.90 (±1.40)	2.80 (±1.50)	2.75 (±1.35)	3.40 (±1.4)
2027	-	-	-	2.50 (±1.4)

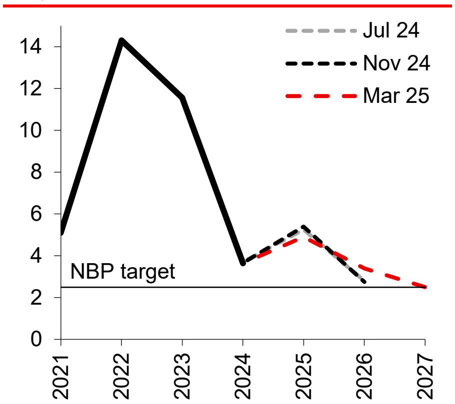
Source: NBP, Santander

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. February statement):

~~The economic conditions in the environment of the Polish economy are still weakened.~~ In 2024 Q4, the annual GDP growth in the euro area ~~continued to be moderate, and~~accelerated, while in Germany it was slightly negative. Meanwhile, in the United States the annual economic activity growth in 2024 Q4 was close to its longer-term average. ~~Uncertainty about the activity outlook in the largest economies persists, which is related to, among others, possible changes in global trade policies.~~
Inflation in the major advanced economies is running slightly above the central banks' inflation targets~~. At the same time, due to elevated growth in services prices, core inflation is still higher than headline inflation~~, mainly as a result of elevated core inflation, including services price growth. The outlook for economic activity and inflation around the world is fraught with uncertainty, which is related to, among others, changes in trade policies.
In Poland, according to the Statistics Poland preliminary estimate, GDP ~~grew by 2.9% in 2024, which implies that annual economic activity~~ growth ~~probably~~ accelerated to 3.2% y/y in 2024 Q4 (from 2.7% y/y in Q3). At the same time, growth in domestic demand, including private consumption, picked up (to 4.8% y/y). In January 2025, the annual growth rates of retail sales as well as construction and assembly production increased markedly, while industrial output growth was negative. In the labour market unemployment remains low and the number of working persons continues to be high, although employment in the enterprise sector in ~~December 2024~~January 2025 was lower than a year earlier. At the same time, the wage growth is still running at the high level.
~~Annual~~ According to the Statistics Poland preliminary data, annual CPI inflation in ~~December 2024 was 4.7% (against 4.7%~~January 2025 rose to 5.3%. The rise in ~~November). Higher~~ inflation ~~in the second half of 2024 compared to~~ significantly above the ~~first half of the year resulted mainly~~NBP target from ~~the~~mid-2024 was mainly due to the implemented increases in the administered energy prices – in particular partial unfreezing of energy carriers~~,~~ prices from July 2024 and the increase in natural gas distribution tariffs from January 2025 – as well as ~~–~~, albeit to a lesser extent ~~–~~, the higher annual growth in prices of food and non-alcoholic beverages. At the same time, core inflation ~~net of food and energy prices remains~~is also elevated, mainly due to ~~high growth in~~rapidly rising services prices~~. This is supported by the~~, amid high wage growth~~, stemming i.a. from wage increases in the public sector. Meanwhile, the annual growth in producer prices remains negative~~.
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 27 February 2025, there is a 50-percent probability that the annual price growth will be in the range of 4.1 – 5.7% in 2025 (against 4.2 – 6.6% in the November 2024 projection), 2.0 – 4.8% in 2026 (compared to 1.4 – 4.1%) and 1.1 – 3.9% in 2027. At the same time, the annual GDP growth – according to the projection – will be with a 50-percent probability in the range of 2.9 – 4.6% in 2025 (against 2.4 – 4.3% in the November 2024 projection), 1.9 – 4.0% in 2026 (compared to 1.7 – 4.0%) and 1.1 – 3.5% in 2027.
In the Council's assessment, ~~in the coming quarters,~~ inflation this year will ~~remain~~be markedly above the NBP inflation target, driven by the effects of the already introduced increases in energy prices, ~~as well as~~ rises in excise duties and administered services prices~~. At~~, as well as the ~~same time~~further unfreezing of energy prices in the second half of 2025. In the coming quarters, core inflation will probably also continue to be elevated~~. Unfreezing of energy prices in the second half of 2025 may contribute to extending the period of inflation staying above the target~~, amid a further economic recovery with a marked increase in domestic demand.
In the medium term – under the current NBP interest rates level and amid the expected gradual decline in wage growth – inflation should return to the NBP target. The impact of elevated inflation on inflation expectations and wage pressure – especially ~~against the anticipated economic recovery~~amid a rising demand and low unemployment – remains an uncertainty factor. Inflation developments over the medium term will be also affected by the further fiscal and regulatory policy measures.
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.