

## Interest rates unchanged in Poland; new economic projections in line with expectations

As expected by all analysts surveyed, the Monetary Policy Council left the National Bank of Poland interest rates unchanged today. Thus, the reference rate has been fixed at 5.75% since October 2023. The post-meeting communiqué reflects an update of the NBP economists' projection, both in terms of economic growth and inflation prospects



The National Bank of Poland in Warsaw

### Changes in the NBP projections for 2024 compared to the March projection

The March NBP projection described two extreme and unlikely scenarios, which assumed either a complete extension (baseline scenario) or a full withdrawal of the anti-inflationary shield measures on food and energy prices. In the first scenario, projected CPI inflation in fourth quarter 2024 amounted to merely 3.4% year-on-year, while in the second scenario it stood at 8.4%.

Today, we know that the 5% VAT rate on food has been reinstated since the beginning of April this year, and following last week's tariff decisions by the Energy Regulatory Office, average electricity

and natural gas prices for households have increased by around 18% and 20% respectively since 1 July this year. In addition, core inflation in second quarter 2024 settled at 3.9% (our estimate), below the NBP March projection of 4.4%.

Therefore, a single scenario was presented today, in which the average annual inflation level in 2024 is 3.6% (the middle of the 2.8-4.3% range from the release), just 0.15 percentage points higher than in the March baseline scenario. In contrast, the inflation forecast for the next year (5.25%) is as much as 1.7ppt above the previous baseline projection. The figures presented today are consistent with the information provided by NBP Governor Adam Glapiński during last month's press conference, as he indicated that CPI inflation will increase to 5.2% by the end of this year presented in a partial anti-inflation shield removal scenario.

Although it is not possible to make a direct comparison between the NBP's current and March projections, in our view, the July projection indicates significantly lower inflationary pressure in the short term. According to our estimates, the combined impact of the April VAT food re-introduction and July release of energy prices on average annual inflation is 1.2-1.4 percentage points, i.e. much less than the scale of forecast revision.

In our view, the new projection keeps pointing to the persistent inflationary pressure in the medium term. We will be able to provide a more accurate explanation on this topic after Friday's publication of the Inflation Report, including the details of the projection. As for now, we expect the NBP to forecast elevated wage dynamics and a tight labour market, which makes it difficult to bring core inflation to the 2.5% target.

The GDP forecast for 2024 has been revised downwards by the NBP staff from 3.5% in the March projection to 3.0%. This is largely due to the less favourable structure of growth in the first quarter compared to March projection (the NBP overestimated investment growth and underestimated consumption growth) as well as to the fact that estimates for the second quarter has been lowered, inter alia due to worse data on industrial production and construction activity in recent months (in the March projection, the NBP expected growth of 3.6-3.7% YoY, against the current consensus of 3.0%).

## Changes to other parts of the MPC commentary

Following recent decisions of the Energy Regulatory Office, the statement about significant uncertainty for energy price inflation has disappeared from the communiqué, although there is a statement that fiscal and regulatory policies will affect inflation in the medium term. Once the impact of higher energy prices expires, inflation should return to target, although the impact of higher energy prices on inflation expectations is a factor of uncertainty.

In addition, the communiqué explicitly states that pronounced wage growth interacts with higher domestic inflationary pressures; the previous communiqué stated the impact of this factor in the medium term.

Also, the communiqué reiterates the information from a month ago that demand and cost pressures in the Polish economy remain low.

## More details at tomorrow's press conference

During Governor's Glapiński's press conference tomorrow, we should learn more details behind the

Council's decision today and the macroeconomic projection update. We expect the NBP President to maintain his hawkish rhetoric tomorrow.

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