Poland’s central bank projections 2021: Lower growth, higher inflation

Polish inflation was revised higher on the back of higher core inflation driven by administered prices, new costs and demand pressures after the strong fiscal stimulus

Source: iStock

Poland's central bank's new projections incorporate the positive impact of higher GDP in both the second and third quarter of 2020 and the negative impact of further restrictions in 4Q20 and 2021.

GDP growth was revised up by 1.9 pp. to -3.5% year-on-year for 2020 and down for 2021 by 1.8 pp. to +3.1% y/y. Our current forecast assumes GDP growth for 2020 will be -2.9 to -3.5% YoY, but in the event of a long-lasting national lockdown, it may even reach -4.3% YoY. The main reason behind the upward revision of GDP is higher growth in 2Q20, especially strong investments, compared to the projections in July by the central bank.

The Bank now assumes that the Covid-19 shock in 4Q20 may reach some two-thirds of the amount noted in 2Q20, which is similar to our expectations of a half to three-quarters of 2Q20.

In July, the central bank assumed that prices would rise on average by 3.3% YoY in 2020 and 1.5% YoY in 2021. The NBP adjusted CPI projections upwards by 0.1pp in 2020 and 1.1pp in 2021. This means that current central bank price forecasts are only slightly lower than ours (3.5% y/y in 2020, 2.8% in 2021).

> The main reason behind the upward revision of inflation is higher core inflation in 2020 by 0.5pp and by 1.3pp in 2021. This is an effect of the demand pressures caused by strong fiscal stimulus and strong GDP recovery in 3Q20. Other inflationary factors are new costs of doing business due to Covid-19 prevention measures, and in 2021, an increase in administered prices such as waste collection fees, sugar tax, and capacity fee. Slightly higher energy prices contributed played their part too.
>
> The above projections encompass strong negative GDP shock in 4Q20-1Q21. Despite that, the central bank has decided not to ease policy in November, which undermines expectations for looser monetary policy. We still think further asset purchases or some kind of credit facilitating instrument options are on the table, but less so the "signalling" rate cut.
>
> MPC may resume the dovish rhetoric if the currency keeps appreciating together with the positive emerging market sentiment post US elections.

Author

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Disclaimer