# National Bank of Poland governor turns dovish

We see the softening of the NBP governor's tone as premature among elevated risks and worries about the persistence of inflation

Bank of Poland governor, Adam Glapinski

Source: Narodowy Bank Polski

During the June press conference, the NBP governor significantly softened his bias. Professor Glapiński talked about being close to the end of the tightening cycle and reiterated possible rate cuts in 4Q23 or when CPI inflation starts to decline. This is a worrying turnaround, given that there are not any improvements in inflationary risks: we see rather high inflation expectations, accelerating core inflation and strong second-round effects, which all point to the persistence of inflation. In our opinion, the only positive inflationary effect is the seasonal, summer slowdown in food prices, which we will see in June.

The second element behind this significant easing of Glapiński's bias is the expected slowdown in GDP. In our opinion, GDP will slow down below 2% year-on-year in 4Q22, but the output gap will change from very positive to neutral. This will not help prevent inflation persistence.

We see important inconsistencies which contrast with the governor's dovish rhetoric. Adam Glapiński said that demand is strong and allows companies to pass costs on to retail prices. Also, the wage pressure is high while companies bargaining power is weak. He added that he has seen hardly any factors that could improve the current outlook. Despite this, Glapiński stressed several times that the Monetary Policy Council is closer to the end than the beginning of the monetary policy tightening cycle.

In the opinion of the MPC chairman, inflation will stabilise in the summer and then it will slowly start to decline, only to fall to c.6% next year. He also stressed that the inflation prospects were subject to very high uncertainty.

We assume a different course of inflation in 2H22. We expect the CPI peak to fall in 4Q22 to between 15-20% YoY, not in the summer as the NBP governor said. We see a seasonal slowdown in food prices during the summer (this is seen in wholesale food markets), but this would only cause a temporary stabilisation of the CPI. In 2023, we assume an average CPI level of over 10% YoY.

In our opinion, the softening of the rhetoric is premature. We rather observe accelerating core inflation, intensifying second-round effects and rising inflation expectations. The expected downturn in the economy is not enough in itself to contain inflation.

We assume that further rate hikes are ahead of us, and possible cuts are still a distant prospect. This softening of rhetoric amidst still very high inflationary risk may be negative for the zloty Polish government bonds. We maintain our expectations that the target rate is 8.5%, but it may take longer to reach this level.

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