

## Poland: Central bank preview

The National Bank of Poland meets on Wednesday and we expect the benchmark reference rate to remain unchanged at 6.75%



National Bank of Poland in Warsaw

Data point to further weakness in domestic consumption, but insufficient to tame core inflation. Hence contrary to the market pricing, we see no monetary easing this year. The zloty should underperform against Central and Eastern European counterparts.

We downgrade our 2023 GDP growth forecast to 0.5% year-on-year from 1.0% YoY. Wage growth has undershot CPI since mid-2022. YoY consumption dynamics in the first quarter of this year will be negative, given the high 2022 base and recover gradually for the rest of 2023. The investment outlook is mixed. Recent months showed improved public investments as projects are rushed in the last year of the old EU budget. Housing construction remains poor though, while corporate surveys show reluctance to big-ticket spending. Global financial sector woes may also affect Poland's export prospects.

Headline inflation should subside after the peak in February, due to base effects on energy and fuel prices. However, core inflation should remain persistently high. Companies still pass costs onto consumers (pass-through from PPI is about three quarters). As a result, CPI in December 2023 should hover around 9% YoY. This is likely to prevent the NBP from easing in 2023. This week's MPC meeting should call that direction.

Economic policies are cautious. So far, the government has offered no heavy pre-election

promises, while the central bank hints at no prompt policy easing. We shall see if this holds in the months to come. In the pre-election period we see some competition on social grants, so far rather limited in scale, but final proposals should be released in June-July, ie, ahead of the summer holidays and the October general elections.

## FX and Money Markets

The zloty is likely to underperform CEE counterparts. As investors become accustomed to the global financial sector woes, local concerns will come to the fore. The European Court of Justice's opinion on CHF mortgages, or a potential statutory solution to this issue, may cause domestic banks to make provisions in francs (thus sell PLN for CHF). Domestic data are also expected to remain weak, supporting bets on NBP rate cuts. However, the chances of €/PLN returning to 4.80 have decreased given the higher €/US\$. In our view, the €/PLN should not reach further than 4.76 in April.

## Domestic Debt and Rates

Curve steepening seems the most probable scenario for April. The NBP's double hand rhetoric after the March decision may be not able to trim expectations for a prompt monetary easing, given poor domestic data. Therefore, short-end yields should stabilise or come lower. Core developments should support a rise in longer yields (although potentially in a smaller scale compared to eg, Bund). However, strong depo and poor credit risks local banks capacity to buy Polish government bonds. Pre-election fiscal pledges are increasingly a risk factor and may deter global investors from approaching the long end.

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