

## Poland: Rates unchanged and tightening cycle seems completed

In line with our and the market's expectations, the first meeting of the Monetary Policy Council in 2023 (a two-day decision meeting again after almost three years) did not bring changes to interest rates. Thus, the 'pause' in the monetary tightening cycle is extended to four months, confirming it is in effect completed



National Bank of Poland in Warsaw

In the communiqué, apart from an update on the recent economic outlook and inflation developments, we did not see any noteworthy new elements. The Council noted global disinflationary factors (economic slowdown in major markets, declines in commodity prices, easing tensions in global supply chains) and uncertainty about the epidemic situation in China.

The Monetary Policy Council pointed to a further slowdown in Poland's GDP in the fourth quarter of 2022, after 3.6% year-on-year in the third quarter, and emphasised the role of second-round effects from previous supply shocks and the resulting rise in core inflation. As a counterbalance, the release noted a decline in PPI inflation, signalling a possible easing of cost pressures. Sections of the communiqué relating to the exchange rate of the zloty – its strengthening would favour a faster reduction in inflation or the possibility of currency intervention – remained unchanged.

Although the peak of inflation is still ahead of us (seen around 20% YoY in February), disinflationary trends have been visible recently. We estimate that consumer inflation declined for the second consecutive month in December. Favourable weather conditions and high gas storage stocks are significantly reducing the intensity of the gas crisis in Europe, which is translating into declines in market gas prices. This was reflected, among other things, in a fall in HICP inflation in Germany to 9.6% YoY in December from 11.3% YoY in November.

Nevertheless, in our view, disinflationary trends are not sufficient grounds for monetary easing. The decline in the headline inflation rate in Europe and Poland will mainly be due to lower pressure from energy and fuel prices. The room for a strong decline in energy prices in Poland due to the low reference base is lower than in Europe as a result of the retail prices stabilising measures by the Anti-inflation Shield in 2022. Core inflation will remain at a stubbornly high level as the previous increases in energy and raw material costs will continue feeding-in, pushing retail prices higher. As a result, after a period of disinflation, at the end of the year we see the risk of headline inflation rate stabilising well above the National Bank of Poland target.

Therefore, in our assessment, there will be no conditions for interest rate cuts in Poland in 2023. The key for the monetary policy outlook remains the pace of disinflation and the level at which price growth will start stabilising. It seems that the major central banks (Fed, European Central Bank) will be cautious in policy response to declines in headline inflation in order to avoid premature monetary easing, mindful of the experience of previous energy crises. Core inflation and analysis of the composition of price growth and persistence of inflation will become increasingly important.

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