

Inflation outlook in Poland should improve, leading to rate cuts

As expected, rates in Poland remained unchanged (reference rate still 6.75%). In the press release, the Council focused on 2H23 and 2024 – a period of more benign inflation prospects. The bank president should sound dovish at Friday's press conference, highlighting many disinflationary pressures and preparing the ground for rate cuts this year



Communication by the central bank

This month's Monetary Policy Council statement is more concise than after the June meeting, but it speaks of a greater conviction about the decline in inflation in the second half of 2023 and 2024. Also, the MPC expresses its view that rate hikes are working and inflation is coming down to the target. National Bank of Poland President Głapiński is likely to speak in this vein tomorrow!

The most important changes in the communication are:

- (1) a more optimistic picture of global inflation
- (2) more optimistic inflation trends in Poland - e.g. the sentences mentioning the still ongoing

process of passing on high costs to prices have disappeared

(3) a greater belief in the effectiveness of the monetary tightening, which has already started the process of bringing inflation down to the target: in the summary passage on future inflation, the MPC states that: "The Council assesses that the strong tightening of the NBP monetary policy **is leading to a decline in inflation** in Poland towards the NBP inflation target". Earlier, it had said that the strong tightening of the NBP's monetary policy made earlier **would lead to a lowering of inflation**.

The statement also noted the low economic activity in the second quarter and elevated uncertainty in the global economy and the euro area. The decline in global inflation was highlighted, including a marked decline in producer price dynamics. Although still elevated CPI and core inflation was noted, there was mention that the latter is gradually declining.

Regarding the domestic situation, the Council points out that the annual CPI fell once again to 11.5% year-on-year in June from 13.0% in May, while remaining unchanged for the second consecutive month in month-on-month terms. The Council estimates that core inflation also declined in June and notes a strong fall in PPI producer inflation, which will influence the CPI to fall further in future quarters.

New GDP and inflation projections

In our view, the projections show a better inflation picture in the second half of the year and 2024, but the longer-term outlook is less optimistic:

(1) the NBP's CPI projection for 2023 remained unchanged, but for 2024 was revised down by 0.5 percentage points compared to the March publication, a short-term faster decline in inflation is emerging from these numbers, but the CPI projection for 2025, which has increased slightly, is of concern (see also below)

(2) in our view, with average CPI projection for 2023 at 11.9% YoY, we still think that a decrease of headline CPI below 10% in August is still possible, which could lead to an interest rate cut after the summer.

In contrast, annual GDP growth is expected to be -0.2 - 1.3% YoY this year (-0.1 - 1.8% assumed in March), 1.4 - 3.3% in 2024 (previously 1.1 - 3.1%) and 2.1 - 4.4% in 2025 (vs. 2.0 - 4.3%).

National Bank of Poland projections

NBP projections comparison

| | 2022 | 2023 | 2024 | 2025 |
|------------------------|------|------|------|------|
| GDP | | | | |
| projection from Jul-23 | | 0.8 | 2.4 | 3.3 |
| projection from Mar-23 | 4.9 | 0.9 | 2.1 | 3.1 |
| ING | 4.9 | 1.0 | 2.4 | 3.5 |
| CPI | | | | |
| projection from Jul-23 | | 11.9 | 5.3 | 3.6 |
| projection from Mar-23 | 14.4 | 11.9 | 5.7 | 3.5 |
| ING | 14.4 | 11.8 | 6.0 | 5.0 |

Source: NBP, ING forecasts

Our rate forecasts – we expect interest rate cuts in September and October

The MPC is strongly focused on the second half of 2023 and 2024 – a period when the inflation situation looks better compared with the March projection, so we maintain our view that rate cuts are possible after the holidays, i.e. in September and October. Tomorrow, during its press conference the NBP President should sound dovish, highlighting many of the above-mentioned developments towards lower inflation and preparing the ground for rate cuts.

In the longer term, we do not see a convincing weakening of inflationary pressures. With the CPI projection for 2024 at 5.3% YoY and a planned minimum wage increase of around 20%, the real minimum wage in 2024 will increase by more than 15%! We maintain our view that going down to the NBP's 2.5% target with such real wages will be difficult and long-lasting. Our models show core inflation stabilising at 5% YoY in 2024-25.

At tomorrow's press conference by NBP Governor Adam Glapiński, we expect the tone to be more dovish than a month ago. It is possible that the governor will prepare the ground for interest rate cuts after the summer.

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