

## Poland central bank preview: How close to the end of the hiking cycle?

We see the National Bank of Poland hiking rates by 25 basis points at its meeting on 9 November, although the odds of no change are relatively high



National Bank of Poland in Warsaw

The inflation outlook has not improved and there are even calls from the technocrats for tightening to continue, but on the other hand Monetary Policy Council comments were very dovish recently. Still, we remain confident that the NBP underdelivers market expectations on the terminal rate.

Revised quarterly GDP figures point to stronger economic growth in the first half of 2022 and probably in 2022 as a whole, but the outlook for 2023 remains gloomy and we still see downside risks to our 1.5% GDP forecast for the upcoming year.

Inflation refuses to pivot and is on course to peak above 20% year-on-year in February 2023. Even though it is expected to start declining afterwards to about 10%, our models point that core inflation will stay persistently high in 2023. With upside risks prevailing the MPC has no ground for complacency.

All eyes are on the MPC that refrained to hike rates in October and declares to be close to ending

the tightening cycle. The November macroeconomic projection may be a late opportunity for either fine-tuning or amending forward guidance. With signals from the government that they are worried about low confidence of Polish government bond buyers due to CPI risk and excessive spending in the 2023 election year, we expect policymakers to deliver a 25bp rate hike. However, we would not be surprised if the rates remained unchanged, in line with dovish comments of MPC recently. It is going to be a close call.

## FX and Money Markets

The zloty priced off much of the CEE premium, owing to high costs of financing of positions against the PLN, cheaper natural gas and politicians mulling a reset in relations with the European Commission to unlock the Recovery Fund. However, we fear the Polish currency won't find much support from NBP policy in the year-end. We expect the MPC to deliver no more than 50bp of additional hikes, whereas the market is still pricing about 100bp. Therefore, we see €/PLN above 4.80 in December 2022, the scale of depreciation largely depending on the overall sentiment, €/US\$ and fade of Recovery Funds.

## Domestic Debt and Rates

We see curve steepening in the year-end. The NBP is expected to underdeliver against market expectations, pushing short end yields lower. However, fears of persistent inflation should affect the long end. This is likely to coincide with pressure on higher yields on core markets. We also cannot exclude further asset swap widening, as 2023 borrowing needs will be high. The government pledges spending cuts vs the 2023 budget draft, but this may be offset by new outlays in an election year.

### Author

#### Rafal Benecki

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

#### Adam Antoniak

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

#### Piotr Poplawski

Senior Economist, Poland

[piotr.poplawski@ing.pl](mailto:piotr.poplawski@ing.pl)

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