

Monitoring Poland: National Bank of Poland looks set to ease

Surprisingly, neither the ruling PiS party nor the opposition unveiled new social spending plans in June. We expect new announcements just before the elections, possibly in September. We expect a fast decline in CPI in 2H23, supporting – in our view – NBP policy easing in 2023. This offers a positive outlook for POLGBs, at least until the general elections



We expect no policy changes from the National Bank of Poland (NBP) in July. The central bank will present new projections, likely reflecting a series of downside CPI surprises. However, we estimate that the chances of a rate cut after the August Monetary Policy Council break have increased to 65-70%. This follows the guidance provided by some MPC members, including President Adam Glapinski, and the recent lower-than-expected CPI print in June. We see more than one interest rate cut in 2023 as possible. Our short-term inflation forecast is optimistic, with CPI falling to single digits in August – something which should further strengthen the MPC's dovish stance.

Our long-term CPI forecasts are substantially less favourable though. Core inflation could stabilise around 5% year-on-year in 2024-25, given the tight labour market, another significant rise in the minimum wage and valorisation of the 500+ child benefits (to PLN800 per child per month).

Risks to our 2023 GDP of 1.2% growth forecast are mounting. Second-quarter growth most likely underperformed (with flat or negative year-on-year growth), given poor retail sales, industrial output and an only 45.1 point manufacturing PMI print in June. Consumer sentiment is improving but from a very low level. Moreover, real wages are set to only start to grow sometime in the third quarter, after around a year of negative growth.

Also, the government's recent cheap mortgage scheme has come too late to give a boost to housing construction this year. Given the likely lacklustre internal demand, net exports are set to be a key GDP driver this year.

FX and money markets

The zloty continues to benefit from a mix of current account surplus, more FX sales on the market by the Ministry of Finance, inflows from Foreign Direct Investment and portfolio capital. Some investors seem to expect a more market-friendly political environment after the parliamentary elections. We expect all those factors to persist at least until the elections. We expect €/PLN to gradually sink towards, or slightly below, 4.40 in the coming weeks.

Domestic debt and rates

Despite higher overall 2023 borrowing needs after the state budget amendment, the government aims to finance these via a reduction of the sizeable cash buffer (PLN117bn as of the end of May) and FX funding, hence limiting Polish government bonds (POLGBs) issuance compared to the initial budget bill. In tandem with the expectations for monetary policy easing (fueled by the recent CPI print), this suggests further drops in yields across the curve and some tightening in asset swaps.

Authors

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.