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.

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