National Bank of Poland press conference: No rate cuts in 2023

NBP President Glapiński noted a "sharp" downtrend in inflation has begun, but CPI basket changes will yield slightly higher CPI at the end of the year. The main takeaway from the meeting is a less dovish or even hawkish tone with the governor suggesting that there will be “no further hikes”, unlike previous speeches where he alluded to possible cuts this year

President of the National Bank of Poland, Adam Glapinski

Glapiński said that core inflation follows headline CPI with a lag, and in his opinion core continued to rise in March, but will begin to fall in the second half of 2023. At the same time Governor Glapiński cited several arguments as to why high core is so persistent. He presented a cumulative massive rise in real wages in the past several years (since 2015 average real wages have grown by 22% and minimum wages by 36%). That matches our view, that the real wage shock and consumption contraction recently is not strong enough to tame core inflation pressure we have observed recently. We came to a different conclusion than the governor on CPI but the same on rates, ie, we think core CPI will stay persistently high in coming months and that is why the National Bank of Poland should keep rates flat.

Glapiński said that the disruption in the US banking system is a new risk for the global economy. Domestically, there is a projected slowdown in economic growth, which should support a decline in inflation. Real consumption is expected to have fallen sharply in the first quarter, but real wages will begin to rise from mid-2023, leading to an economic recovery.

The monetary tightening cycle is not over, according to Glapiński, and that the Council will make decisions on rates from meeting-to-meeting. However, Glapiński suggested that there will be no further rate hikes, and that the next NBP move is likely to be a cut. Glapiński did not suggest interest rate cuts before the end of the year, which he had signaled earlier. We consider this the main change from his previous speeches. The main takeaway from the meeting is that the NBP is less dovish and perhaps even hawkish in tone.

Our assessment of the outlook for monetary policy after today's conference remains unchanged. We believe that there will be no conditions for rate cuts before the end of 2023 due to stubbornly high core inflation. While the headline inflation rate will mainly decline due to the extinction of the energy shock, the 'domestic' component of inflation (core CPI) should indicate persistent price pressures due to the tight labour market and elevated wage growth and high magnitude of the costs shock at the corporate level. Our baseline scenario assumes the start of the monetary easing cycle in late 2024, with uncertainty about the pace and scale of disinflation remaining high.

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