

## Poland's bank governor announces a pause but not an end to the tightening cycle

The Monetary Policy Council is pausing rather than ending the cycle and its policy approach relies heavily on the assumptions that the tightening in Poland delivered so far, the economic slowdown and rate hikes abroad are going to bring inflation back to the National Bank of Poland's target



President of the National Bank of Poland, Adam Glapiński

### Rationale behind decision to keep rates unchanged

The rationale for the decision to leave rates unchanged hardly differs from the one provided last month. The NBP is counting heavily that the aggressive hikes so far in Poland, the ongoing tightening abroad and the significant economic slowdown at home and abroad will bring domestic inflation down.

The NBP governor assessed that the interest rate hikes to date will bring inflation down to the NBP's target within the projection horizon, but we should keep in mind that the projection horizon

has been extended by another year.

The MPC intends to bring inflation back to the target in a gradual rather than a swift manner.

What concerns us are the still strong second-round effects and high inflation expectations. These factors are likely to cause non-linear inflationary effects that could keep inflation persistently elevated.

## On future inflation

The NBP acknowledges that inflation will remain high in the coming months and that its level in the second half of 2022 was higher than envisaged in the previous projections. Governor Glapiński finally shared our view that the energy shock has caused another inflationary wave. We warned this summer that the CPI peak would occur in February 2023 and that there would be no plateau in the second half of this year. According to the NBP, the peak in inflation is moving away until January or February 2023 (CPI will not exceed 20% though) amid changes in the anti-inflationary shield. The central part of the inflation projection in November assumes a 50% reduction in the impact of the government's anti-inflation shield on CPI. Under such conditions, the NBP sees inflation peaking at 19% in February 2023 and falling to 8% in the fourth quarter of 2023. The return of CPI to the range around the NBP target (2.5% +/- 1 percentage point) should not occur until 2025 (3% in the fourth quarter of 2025).

Following the recent announcements of changes to the anti-inflation shield, preliminary estimates from the NBP indicate that fiscal policy will be inflation-neutral rather than pro-inflationary.

## Forward guidance on future decisions

The MPC's assessment is that the interest rate hiking cycle is on hold, but in our view it is de facto completed. According to the NBP, the upcoming decisions will depend on incoming data and forecasts. In our view, given that significant inflation surprises in recent months have not been able to change the MPC's approach, it is difficult to imagine that the data for the coming months change this. Only a major weakening of the zloty and Polish debt could change the Council's policy approach, in our view.

For the time being, however, according to Governor Glapiński, there are no signs of a need to intervene in the zloty, but FX market interventions remain in the NBP's toolbox.

The NBP governor's comments on possible rate cuts were clearly more cautious than before. In his view, it is difficult to say when the conditions for interest rate cuts may materialise, and it is currently too early to start such a discussion. Previously, the governor has suggested that this could happen in late 2023.

## Bottom line

The tone of governor's press conference indicates that the NBP is unwilling to tighten monetary policy further, even despite the recent upside CPI surprises and expected further inflation rise (an upward revision of the inflation path from the previous projection). We expect the NBP rates to

remain stable in the coming months, and the impulse for potential rate adjustments may rather come from a strong weakening of the PLN and bonds, or, to the lesser extent a further CPI increase past the expected CPI peak in February 2023. We are therefore very close to the target interest rate level, however its level is likely to lead to an extended period of elevated inflation. This may generate the risk of inflation expectations becoming de-anchored. Finally, the NBP may be forced to tighten more decisively via monetary and/or fiscal policy in the medium term.

We differ with the NBP on the inflation outlook assessment. In our view, stubbornly high core inflation, the de-anchoring of inflation expectations and strong second-round effects should result in higher CPI in 2023 and 2024. Today, however, changes to fiscal policy are far more potent in curbing inflation. There is a large fiscal impulse in 2022 (around 3% GDP), which almost offsets the impact of monetary tightening on CPI. Fiscal discipline in 2023 may help lower inflation and calm down the Polish debt market. Without this, the market will verify inflationary policy and may force the need to return to increases even in 2023.

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