Poland central bank preview

The beginning of 2023 was rather poor for the Polish economy. As a result, we revise our first-quarter GDP forecast from -1.2% year-on-year to -1.5%. The weak start to the year increases downside risks to our 0.5% economic growth forecast for 2023 as a whole. We expect the central bank to keep the reference rate at 6.75% on Wednesday

National Bank of Poland in Warsaw

The March set of monthly data from the real economy was not a pretty picture. Industrial output, construction and retail sales all fell in annual terms. Sales of goods were 7.2% lower than in March 2022. That indicates that in the first quarter of this year, household consumption fell even more than the -1.1% YoY reported in the fourth quarter of 2022, contributing to the decline in first-quarter GDP. Growth was mainly driven by an improving foreign trade balance, while domestic demand was shrinking.

Despite two quarters of consumption contraction, there is only moderate progress on the inflation front. Headline inflation declined further in April – down to 14.7% YoY – but core inflation was broadly unchanged. It suggests that enterprises are still able to pass on higher costs onto their prices and disinflation is chiefly due to the easing energy shock and lower pressure from food prices. We expect disinflation in core prices to be much slower than in the case of headline CPI. With CPI only slightly below 10% YoY in December and with the National Bank of Poland (NBP) target still far away, we expect the Monetary Policy Council (MPC) to keep policy rates unchanged by the end of this year and cuts may start in 2024. We expect unchanged rates in May, but the weak March activity data should bring back the easing rhetoric of Governor Adam Glapinski during the post-meeting press conference. He has presented a neutral bias in the last few months, and during the press conference in April even indicated that the choice is between hikes and unchanged rates.

The Polish zloty gained 2% against the euro in April and outperformed CEE peers. The market has largely shrugged off risks related to the FX mortgage saga, and with a trade surplus exporters remain strong sellers of the euro. Moreover, with €/US$ rises, the domestic soft patch and NBP easing expectations should play a lesser role. Given the improving current account and expected weakening of the dollar, this prompts us to lower the €/PLN path in the remainder of the year. That said, technical analysis suggests, that at least the short-term scope for further PLN gains might have been largely exhausted.

The market continues to price NBP rate cuts in the second half of 2023. While we do not share this view, data for the remainder of this quarter and next (slowdown in headline CPI and soft real economy figures), as well as increasingly dovish MPC remarks, should only reinforce those expectations. Moreover, the government remains tame in pre-election promises, even signalling alternative financing sources (€24bn loans from the Recovery Fund). Given the debt-positive global environment, this may trigger curve flattening in the remainder of the quarter. Pre-election fiscal promises remain a major risk though (as opinion pools do not show a clear victory of the ruling PiS), but may start to manifest in June when the new election programme of the ruling PiS should be unveiled.

Author

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Disclaimer