

Poland central bank preview: We expect rates to remain on hold

The National Bank of Poland meets on Wednesday, 7 February. We expect the main rate to remain at 5.75%



National Bank of Poland in Warsaw

Preliminary 2023 economic growth point to weaker-than-expected economic performance in 4Q23, particularly with respect to a consumption recovery. While a domestic demand-led recovery remains our baseline scenario for 2024, the scale of consumption growth may be curbed by higher savings in the short term.

- According to the flash estimate Poland's economy expanded by merely 0.2% in 2023, ie, below our and market expectations and a hefty 5.3% expansion achieved in 2022. Implied fourth quarter 2023 results point to subdued GDP growth (c.1% year-on-year) amid stagnant households' consumption in annual terms. Despite the rebound in real disposable incomes consumers remain wary and shy to spend so far.
- Sharp disinflation is expected to continue in early 2024 amid global disinflation trends, extended 0% VAT on food onto the first quarter, measures shielding households from higher energy prices and favourable developments of food prices, but headline inflation is expected to bounce back in the second half of the year when low VAT on food and the freeze on energy prices will be lifted. We also see local macroeconomic inflationary risks, ie, tight

labour market and high wages growth which should keep services prices and core inflation elevated. But the 2023 data with a low propensity to spend point that local inflation risk may resurface later than already in the second half of 2024.

- Softer economic developments and sharp disinflation are unlikely to convince the MPC to cut rates in February and policymakers will focus on March macroeconomic projections and the medium-term inflation outlook. We see headline CPI at 2.5% YoY in March and other CEE central banks continuing or like developed markets initiating easing to push the Monetary Policy Council (MPC) for marginal easing layer this year (25bp). Markets, however, are pricing-in aggressive monetary policy easing this year.

FX and Money Markets

Since the beginning of the year investors have been trimming long PLN positions likely created last year around the parliamentary elections. For now, it has prevented PLN from extending gains in 2024. Since mid-January this trend seems to have ceased though. The sentiment for the zloty should improve further as EU funding starts pouring in. This should allow €/PLN to move to 4.20-25 in mid-2024.

Domestic Debt and Rates

So far there has been no major inflow of foreign capital towards Polish government bonds. Solid auctions most likely reflect domestic demand, driven by a very high saving rate after the period of elevated inflation in Poland. This trend should gradually change in February as long yields look attractive against PLN financing costs. Still, we underline that the National Bank of Poland rate cut path priced in looks very aggressive considering recent MPC comments.

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