

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.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10

Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.