Poland: Rising chances for a 2023 rate cut

During his press conference, National Bank of Poland Governor Glapiński underlined a further decline in inflation and emphasised that it has fallen by more than 5 percentage points since its peak in February. Current data and NBP rhetoric suggest that the odds of a 2023 rate cut have soared to about 50%, which we find a bit premature

National Bank of Poland Governor Glapinski

CPI picture according to the central bank governor

During his press conference Professor Glapiński noted the stabilisation of CPI on a monthly basis and the marked decline in core inflation from its peak in February at 18.4% year-on-year to 13% YoY in May. He added that disinflation is covering more and more goods, and that the rapid decline in CPI and core inflation will continue in the coming quarters. However, he noted that there is still large distance to the inflation target, and that inflation is persistent and its decline should be gradual and prolonged over time. The course of the inflation path is consistent with the scenario presented in the NBP's March macroeconomic projection.

However, in the second part of the press conference Glapiński was trying to spread “disinflation optimism”. His assessment was skewed toward a faster decline in inflation. He stressed that the March projection showed CPI returning to a range around the target in 2025. He even added that recent election spending promises by both sides of the political spectrum do not significantly increase inflation risks.

The economic prospects

Glapiński also noted the better-than-expected GDP performance in the first quarter, especially compared to other European countries. He noted that weak consumption will promote lower inflation, while in the medium term investment growth will also have a disinflationary effect. The NBP president was also positive about external developments, particularly the current account surplus in early 2023, as well as foreign capital inflows and the strengthening of the zloty. The latter factor will also promote disinflation. Glapiński reckons that inflation will be in single digits in September.

Softening NBP stance and new forward guidance leading to easing

According to the NBP president, the cycle of interest rate hikes is not over, but in his opinion, the Monetary Policy Council leaves open the possibility of a rate hike in case of shocks, which, however, are unlikely.

The most important take away from the MPC meeting is a softening of the tone and defining a forward guidance which may lead to rate cuts. According to Professor Glapiński a rate cut is possible, provided inflation falls below 10% YoY, which could happen as early as September (to be released at the beginning of October).

He also pointed out that the level of interest rates is high, and rate cuts will take place when inflation is in single digits and the MPC is confident that inflation will continue to fall decisively.

Our rates view

In our view, the odds of a rate cut after the vacations (in September-October) have increased from 30-40% to about 50%. We see the September CPI falling below 10% (published in October).

However, we think this would be a premature decision. The disinflation picture in Poland is more uncertain than in the Czech Republic, for example. Also, the Fed and ECB are more cautious than the NBP in assessing the risks from stubbornly high core inflation.

In our view, the short-term inflation outlook is improving, by receding external shocks and a stronger zloty. The long-term outlook is uncertain. We believe that in order to bring inflation down to target permanently, we need a wage rate <5% and a paradigm shift in economic policy, i.e. less consumption and more investment, which will be difficult to implement. We also see a number of inflation risks in the medium term, related to expansionary fiscal policy and a tight labour market, among others.

Author

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

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

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