Poland's central bank keeps rates unchanged; Council cautious on inflation target

As expected, the Monetary Policy Council left interest rates unchanged (main rate still at 6.75%). The post-meeting statement is largely unchanged. Chairman Glapiński should sound even more sceptical towards interest rate cuts before the end of 2023 at Thursday's press conference

In the foreign section of the post-meeting statement, the MPC highlighted increased uncertainty about the global economy due to the turmoil in the banking sector in the US and Europe, but at the same time notes that the Fed and European Central Bank continue to raise rates.

The domestic section of the statement is largely similar to the one in March. There is no change in the section assessing the economic outlook and monetary policy. The Council still believes that the rate hikes so far will lead to a decline in inflation towards the National Bank of Poland target. However, the return of CPI to the target will be gradual.

The MPC seems satisfied with the expected pace of disinflation. Apparently, the MPC judges that monetary policy has done the bulk of the work in cooling demand and that the pace of disinflation will depend primarily on supply-side factors, such as energy commodity prices and global supply chains.

Since the previous Council meeting, concerns about financial stability in the US have emerged. As a result, the market is pricing in aggressive Fed rate cuts and near-flat ECB rates. NBP President Glapiński declared earlier that rate hikes by major central banks would encourage disinflation in Poland as well. March CPI data in the country confirmed the turning point in CPI, but the pace of CPI decline is slow for now, and core inflation rose again.

We expect Glapiński to sound even more skeptical towards interest rate cuts before the end of 2023 during his speech on Thursday (15:00 CET). This is especially the case since his past announcement that inflation will fall to 6% by the end of 2023 is highly questionable. In our view, rates should remain unchanged until the end of 2023, and we see the first cuts in the second half of 2024.

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