

## National Bank of Poland ends tightening and starts easing cycle

We have correctly recognised the Monetary Policy Council reaction function and signalled possible cuts after the August summer break. The governor's press conference leaves no doubt that the central bank should deliver a cut in September and we see another one in October, totalling about 50-75 basis points in 2023. The easing cycle may resume in 2024



National Bank of Poland Governor Glapiński

### Glapiński press conference: tightening ends, easing starts

In our view, Friday's conference by the NBP president leaves no doubt that the bank has verbally started the easing cycle and the first rate cut should be delivered at the September MPC meeting.

President Glapiński once again spread the disinflationary optimism. This optimism was also evident yesterday in the post-meeting statement.

The interpretation of the new CPI projection was focused on 2023-24, when inflation will fall further. In our view, too little attention was paid to medium-term inflation risks.

## Forward guidance

The president officially declared the end of the tightening cycle and announced that the next step should be a rate cut. However, two conditions must be met. The first is that CPI inflation falls below 10%, which we expect in August, with data to be published in early September. The second is that inflation continues to fall confidently towards the target. We have a different view on medium-term inflation and less certainty than the NBP, but the assessment presented by the president leaves no doubt that he sees no significant risks.

Professor Glapiński basically left no doubt that there will be a 25bp rate cut in September and added that the next steps will be gradual. In our view, the second cut should take place in October and in total rates should fall by around 50-75bp in 2023. Further monetary easing is more likely to take place in 2024.

## CPI prospects and rates outlook

Our short-term inflation forecasts are in line with the NBP projections and are optimistic, but beyond 2024 we see significant inflation risks. Therefore, we believe that bringing inflation down to the 2.5% year-on-year target should be a long-term process.

We can already see that the decline in core inflation in Poland is the slowest in the region in response to the monetary tightening that has taken place. Many central banks believe that in the current period of high uncertainty, the central bank should react to current data, especially the behaviour of core inflation, and that it is falling too slowly in Poland. We also have doubts about the interpretation of the fact that up to 50-60% of inflation in 2022 will be due to rising margins. We believe that the role of monetary policy is, among other things, to 'cool' demand so that companies cannot easily pass on cost shocks to retail prices.

Also, the 24% increase in real wages in recent years, repeatedly mentioned by the NBP president, has side effects, i.e. companies can easily pass higher costs to prices and raise margins. In addition, we note that there will be a very significant increase in the minimum wage in 2024 (20.4% in nominal terms and around 15% in real terms), which means that there will continue to be no demand barrier to price increases. Today, our models show core inflation stabilising at a high level of 5% in 2024-25. In order to permanently reduce inflation in Poland, a paradigm shift in monetary policy is needed, i.e. less consumption and more investment in GDP, which seems unrealistic today.

## Authors

### Rafal Benecki

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

### Piotr Poplawski

Senior Economist, Poland

[piotr.poplawski@ing.pl](mailto:piotr.poplawski@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 <http://www.ing.com>.