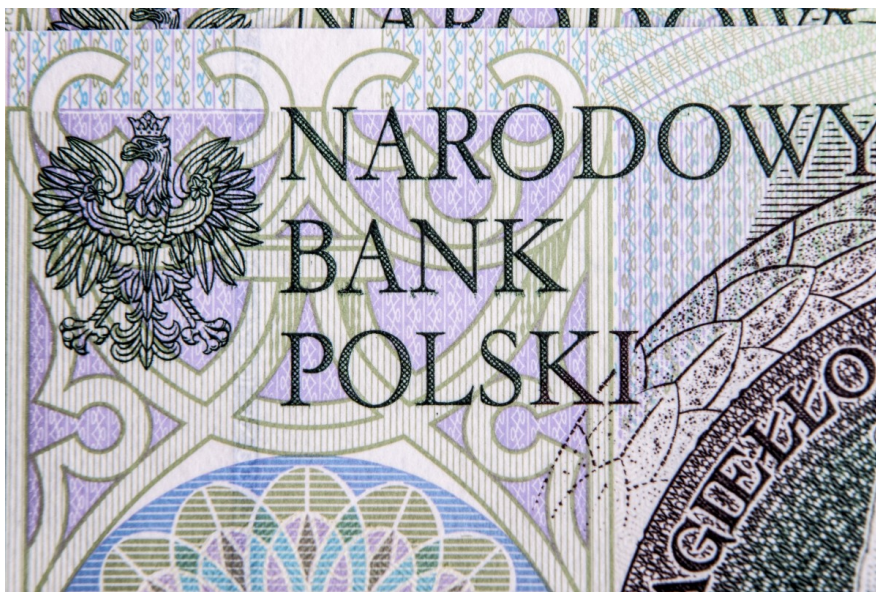


Unchanged rates in Poland amid slightly lower inflation projections

The MPC left interest rates unchanged (the main rate at 6.75%), as widely expected. The inflation projections are lower but we don't see a breakthrough here. All indications are that the next move by the Council will be a rate cut, but the start of the monetary easing cycle will not begin earlier than 2024 in our view, due to persistently high inflation risks



Monetary Policy Council statement sounds more dovish than a month ago

The statement sounds more dovish than a month ago. Admittedly, it no longer says that foreign hikes will help disinflation in Poland, but the MPC notes many global disinflationary factors such as: weaker economic growth in main economies and falling commodity prices.

At the same time, the Council points to domestic disinflationary factors: a weakening of GDP growth, including consumption, as well as lower credit dynamics. Also, high wage growth is no longer mentioned.

The central bank still expects that the monetary tightening in previous months should have an impact on lowering inflation "towards the inflation target", but the return to the National Bank of Poland target "will be gradual".

No breakthrough in the projections

The NBP released the new projections for CPI and GDP. As expected, short-term (2023) expectations for inflation have been lowered, but nevertheless the projections for 2024-25 have not changed significantly (for 2023 a decrease of 1.25 percentage points, for 2024 by 0.2pp, for 2025 unchanged).

Therefore, we do not see a breakthrough in inflation projections. They are lower, but this is due to the softening of external supply shocks and lower starting point in fourth quarter of 2022 and first quarter of 2023. The MPC is talking a lot about domestic disinflationary factors, but the conclusions from the data are not very optimistic. Core inflation, unlike CPI, did not slow down in 4Q22-1Q23, in Poland and abroad. The new CPI projections indicate the persistence and longevity of the inflation shock.

The NBP projections for GDP are almost unchanged vs November iteration. According to the NBP, GDP this year is now expected to grow by 0.9% year over year (range -0.1% to 1.8%) compared to 0.7% year over year (range -0.3% to 1.6%) expected in the November projection.

We expect a cautious optimism during the governor's press conference tomorrow

Market attention now shifts to tomorrow's press conference by NBP President Adam Glapiński. The NBP is facing mixed signals. On the one hand, lower inflation in the fourth quarter of 2022 and first quarter of 2023 than expected by the NBP and the market, as well as weakness in consumption (year-on-year declines in 4Q22 and probably 1Q23), warrant a slightly more dovish stance. On the other hand, the trajectory of core inflation remains uncomfortably high, and wage growth has turned out to be stronger than the central bank expected. Moreover, the projection continues to point to a high level of inflation over the 2025 horizon.

We assume that the governor will be optimistic tomorrow, but cautious about declaring the end of the tightening cycle or cuts. Major central banks are concerned about the persistence of core inflation and we also point out that core prices have been 'sticky' in Poland for a long time as well. In such an environment, we see no room for interest rate cuts this year. However, all indications are that the next move by the MPC will be a rate cut, but the start of the monetary easing cycle will not begin earlier than 2024 in our view, due to persistently high inflation risks.

The new CPI projections indicate the persistence and longevity of the inflation shock

The NBP projection for CPI and GDP vs ING forecasts

NBP projections & ING forecasts

	Nov-22		Mar-22		ING	
	CPI	GDP	CPI	GDP	CPI	GDP
2023	13.1	0.7	11.9	0.9	12.5	1.0
2024	5.9	2.0	5.7	2.1	7.6	2.4
2025	3.5	3.1	3.5	3.2	3.9	3.5

Source: NBP, GUS, ING

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