

08 July 2022

Economic Comment

Even closer to the end of cycle?

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NBP president Adam Glapiński during the press conference in July repeated a similar message as in June, however tweaked somewhat the accents (in good direction, in our view): the main message was again (just like in May) that the central bank will keep hiking rates as long as inflation is on the rise and that curbing inflation is the MPC's primary focus. Glapiński repeated that he hopes that the end of monetary tightening cycle is nearing but stressed at the same time that it is not a done deal and the assessment may change. If inflation stabilises then the Council may stop hiking rates. But further CPI rise will trigger more tightening.

The central bank sees growing signals of looming economic slowdown, which was among arguments to trim the size of rate hike from 75bp to 50bp, and remains sensitive to the risk of unemployment rise. Glapiński does not expect a full-fledged recession in Poland, but only a technical recession, which in his view will not trigger major job losses. In his view GDP growth may slow to 2.0-2.5% y/y by the year-end (last month he expected 4.0-4.5% in the same horizon). He was also arguing that in 2024 inflation will fall below the upper end of tolerance band around 2.5% target "regardless of when anti-inflation shield will be terminated" – which we consider a doubtful statement, as if the shield lasts until the end of 2023, then CPI path in 2024 will be lifted significantly.

Overall, today's press conference has not altered our assessment of monetary policy outlook. We still see the target reference rate near 7.0% in early autumn. We think the most likely scenario is another 50bp rate hike in September, but it cannot be ruled out that the MPC will want to split the move into two 25bp rate hikes. The risk remains asymmetric to the upside, however, as is the risk for CPI forecast. Currently we share the NBP's view that inflation is likely to peak in July-August, however the looming energy crunch in Europe and potential food market crisis may push inflation even further up in the autumn, which will then probably trigger MPC reaction. Today's news that the energy regulator is reviewing the energy tariff spike even before the end of this year adds also a risk of inflation jump in Q4. Another risk factor is PLN depreciation if major central banks maintain the hawkish course in the summer.

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