

Economic Comment

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Too early to talk about rate cuts

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At today's conference NBP governor Adam Glapiński reaffirmed the message from the previous months: The current interest rate level is adequate and in the central bank's view it should help taming inflation. The MPC sees weakening economic growth in Poland and abroad, which should be favourable for reducing inflation. The bank is ready to tolerate that the disinflation process will be extended, in order to avoid excessive deceleration of economic growth that would be painful for households. Currently the NBP governor expects the soft landing for Polish economy.

The MPC will be closely watching the data in the coming months, and the next monetary policy decisions will be strongly dependent on the results. Glapiński believes that inflation in 1Q23 should be lower than predicted in the November's NBP forecast, it should go below 10% in the middle of the year and could reach 6% in December. He hinted that such scenario could open the door for interest rate cuts, but the MPC will have to get confidence about such pace of disinflation before it makes any decisions. In his view, such confidence may arise already before the end of the year. Before that happens, the central bank remains in wait-and-see mode and keeps all options on the table, even interest rate hikes, due to high uncertainty regarding inflation levels in January-February. So currently it is still too early to talk about rate cuts.

Summing up, the monetary policy in Poland will be data-driven. First of all, CPI and labour market data for January-February will be critical, as they will affect expectations regarding the pace of disinflation in the remainder of the year. New NBP projection to be released in March may be also an important reference point, but we think it will be still too early to trigger a major change in monetary policy, as it will be prepared before the release of the key inflation data for February (expected to be the peak CPI level, plus showing the impact of CPI weights revision). Our inflation forecasts for 2023 are clearly above Glapiński's expectations (we see CPI above 10% until the end of this year), which reaffirms our view that MPC will not start monetary policy easing this year.

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