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## Economic Comment

### NBP signalling the nearing end of the cycle

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NBP president Adam Glapiński opened his monthly press conference with a statement that the monetary tightening cycle in Poland is nearing its end and if no unpredictable events happen then interest rate cuts may take place at the end of 2023. Later on, he hinted that “inflation stabilisation = interest rates stabilisation” and “inflation decline = interest rate decline”. Yet, the latter obviously should not be taken literally, given his initial statement.

Glapiński said the central bank expects inflation to stabilise in the summer months and then to start declining slightly, which is in fact in line with our current forecast – we see CPI peaking near 15.5% in July-August and then sliding to slightly above 14% by December. If such scenario materialises, we think the MPC may deliver another +75bp rate hike in July and the last one +25bp hike in September, ending the cycle at 7.0% (there is no decision-making meeting in August). Asked what if inflation peak proves higher and later, Glapiński answered that in such case monetary tightening cycle will be longer. We agree that if CPI goes much higher, then the target rates level will have to go up as well.

NBP president admitted during the Q&A session that the central bank is sensitive to the risk of economic slowdown. He said the central bank is anticipating GDP growth deceleration from 8.5% y/y in 1Q22 to “4-4.5% at the end of the year”, adding that he “by no means” would like to approach stagnation or recession and that the increase of unemployment must be avoided. We think that the severity of economic slowdown down the road will be in fact much bigger than Glapiński imagines (GDP growth down to merely 1% in 4Q22 and just below zero in early 2023), which will be reducing central bank’s readiness to tighten policy even further after the summer holidays.

The zloty reacted to dovish NBP conference by temporary depreciation (EURPLN briefly above 4.60 from 4.59) and we think the message from the central bank supports steepening of the yield curve – it looks obvious the NBP will try to stop the cycle soon, yet the market may be pricing-in the risk that it will be not enough to tame inflationary pressure so more tightening will have to follow later.

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