

Economic Comment

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Hiking cycle formally not over

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The conference of NBP governor Adam Glapiński started on a very upbeat note: The economic situation remains very good, GDP growth slowed but is still rapid, labour market remains super robust, wages keep rising quickly. Recession is looming in many countries in Europe, but definitely not in Poland (Glapiński understands recession as y/y growth below zero, which we think is likely to occur in 4Q22 or in early 2023 at the latest). Inflation remains high but it is mainly due to external factors (in his view responsible for at least 3/4 of CPI growth). Then, NBP president declared that the central bank is fighting inflation and will continue doing so until it is reduced to a "decent" level. Glapiński also noted that "everywhere" abroad the monetary tightening is in progress. Such start of the speech could have made a hawkish first impression... But it looks like it was merely a game of appearances.

In the later part of the speech Glapiński said that inflation has probably reached a turning point in the summer months, it may plateau in the near future and then will start falling later in 2023. Precision in CPI forecasts is low due to uncertainty regarding energy price hikes and decision regarding anti-inflation shield, but according to Glapiński, one way or another, inflation will be certainly under control in 2023. He said the MPC has not ended the tightening cycle formally and next decisions will be data-driven. In October the MPC will either hike rates again by 25bp or leave them unchanged. He avoided any guidance about the following months, but repeated several times that by 4Q23 the conditions to start cutting rates may appear. He also repeated that the NBP must calibrate its policy in such way to avoid recession and unemployment "at all cost", downplaying recent comments of ECB's Schnabel who suggested that bringing inflation down may require higher unemployment.

Overall: we think the message of the Polish central bank remains unchanged versus previous months. This is in line with our scenario of the reference rate going up to 7.0% in October and remaining flat until late 2023. The question arises: if Glapiński completely rules out recession in Poland, then maybe the arrival of new economic data confirming very negative scenario could trigger a dovish turn in the central bank rhetoric and earlier rate cuts? We think that the room for earlier rate cuts will be constrained by still very high inflation rate and restrictive monetary policy conducted by global central banks.

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