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# Economic Comment

## MPC thinks inflation cannot rise forever

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NBP governor Adam Glapiński said at the conference that the MPC has not formally ended the monetary tightening cycle but rather paused, entering a wait-and-see mode. He listed four reasons behind such decision: (1) eleven rate hikes delivered so far have significantly cooled the credit market (killed mortgage loans, froze consumer credit); (2) inflationary shocks (energy shock, disruptions in supplies) started abating and over time the second-round effects should also start abating; (3) monetary policy transmission comes with a lag, full impact of already applied hikes will show up next year; (4) main central banks abroad started monetary tightening, which will lower global inflationary pressure, helping to curb inflation in Poland.

Glapiński said that the new NBP inflation projection to be released in November will be key in answering the question whether more tightening is needed. If it shows that the internal factors driving inflation have intensified, it would be a strong argument to resume rate hikes. But he hopes there will be no such need, and at this stage he still believes that inflation is mainly driven by exogenous factors (food and energy responsible for 2/3 of total CPI growth). Glapiński said that flash CPI print for September at 17.2% surprised MPC members but did not manage to change their belief that in the medium run inflation is destined to decline. It seems the Council hopes very much that external inflationary shocks will start waning and internal price pressure has to follow suit, amid demand slowdown. To be fair, we were sharing such view until very recently, however the latest inflation data and the growing protection of households' budgets from the cost of living shock have changed this assessment, as it looks that the demand destruction may not be as significant as we anticipated. The result may be a longer period of inflation settling in double-digit zone. Meanwhile, Glapiński still believes that "inflation cannot rise forever", which echoes his September's statement: "what goes up, must come down". We think this "gravity theory of inflation" may not work well in the environment of de-anchoring inflation expectations and negative real interest rates.

Summing up, first of all we think, that interest rate cuts in 2023, which Glapiński has been heralding since July, are much less likely in such environment. Secondly, November inflation projection could deliver new arguments to hike rates, showing higher inflation persistence (previous one saw CPI below 6% by end-2023, our current forecast is close to 10%). But even if it triggers a reaction, we now think the move bigger than +25bp is hard to imagine, given the October's pause showing the apparent aversion to tighten much more. The MPC's intention to end the cycle soon is still valid and has not been changed by the recent data. Therefore, in the baseline scenario we expect +25bp rate hike in November and another +25bp in January (after inflation hits 18%).



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