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Economic Comment

The cycle remains suspended

Piotr Bielski, tel. +48 691 393 119, piotr.bielski@santander.pl

NBP president Adam Glapiński said at the conference that the monetary tightening cycle in Poland has not been concluded, but remains suspended. The MPC did not even discuss ending the cycle today and it thinks that the current interest rate level is appropriate.

Glapiński emphasised that the global situation is turning towards disinflationary. In 2023 inflation will rise initially, but since the end of Q1 it will start descending quickly, ending the year at single-digit level. According to Glapiński such scenario would mean that the inflation is fully under control. Current level of core inflation "is not particularly worrying" for the NBP head, as many other countries are facing high core inflation. It is also expected to decline, as economic activity will slow.

Although Glapiński said he does not intend to herald the beginning of monetary easing cycle, he pointed out several times that financial markets and some economists are already anticipating first rate cuts in the last quarter of 2023, and those people "who can count" should take it into consideration. Glapiński declared that if inflation proves more persistent, the Council may decide to hike rates again, even if it will not be happy about it. But a moment later he admitted that the MPC will most likely discuss the end of the tightening cycle in March, if the new projection shows better inflation outlook. It should be noted that at the March meeting (March 7-8) the Council will not even know the peak inflation level in February (there is no flash CPI for Jan-Feb, the full inflation data for Jan-Feb, taking into account a change of the CPI weights, will be released one week after the MPC meeting). So, at this stage it will be still difficult to assess if and to what extent inflation may be more stubborn.

Overall, we were wrong that NBP president may signal today the end of the tightening cycle today – he reiterated there was no such formal decision of the Council. But at the same time, the signalling seems clear: the central bank is eagerly waiting for the right moment to announce that rate hikes are over. At the same time, the bar for additional rate hikes seems to be set very high. If MPC is readying to end the tightening cycle in March, before even seeing the February's CPI peak print, then the surprise from the data in the following months would have to be really massive to change its position again. We think main interest rates in Poland will remain unchanged until the end of 2023, at least.

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw. Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. <http://www.santander.pl>.

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa

email: ekonomia@santander.pl

website: santander.pl/en/economic-analysis

Piotr Bielski + 48 22 534 18 87

Jarostaw Kosaty +48 887 842 480

Marcin Luziński + 48 510 027 662

Grzegorz Ogonek + 48 22 534 18 84