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Economic Comment

No conditions for resumption of rate hikes

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At the beginning of monthly press conference the NBP governor Adam Glapiński struck a triumphant tone, saying that after February a “nosedive of inflation” has begun – exactly as the central bank has anticipated – and it will keep falling quickly in the coming quarters. Yet, he quickly noted that the revision of CPI weights will have impact on price indicators, lowering inflation rate at the start of the year and increasing it at the end. Later on he said that such change in weights will be responsible for the fact that his earlier forecasts (CPI falling to 6-7% y/y by the year-end) will not materialise.

During the speech Glapiński several times emphasised that the economy is slowing, which is a positive phenomenon from the perspective of fighting inflation. He underscored that the key priority of the central bank is lowering inflation to the official target, the MPC has not concluded the monetary tightening cycle and is prepared for every possible scenario. Next decisions will be strongly data-dependent. If everything goes according to central bank’s forecasts, there will be no interest rate hikes. It may be a small change in the tone but we have noticed it: earlier Glapiński formulated conditions for rate cuts, now he started with conditions for avoiding rate hikes. But he also added that if such scenario materialises, at some point in future rate cuts will take place. The key condition for rate cuts is that the central bank will have to be entirely confident that inflation will keep falling quickly to the target. Currently it is still too early to be sure, according to the NBP governor.

Asked about core inflation, Glapiński argued it is always lagging the headline measure and it will start declining in the second year-half, ending the year somewhere below 10%. Overall, despite the seemingly optimistic tone at the beginning, we see the message from the central bank head as still cautious. Apparently, Glapiński is already aware that his earlier predictions about the pace of inflation decline in the coming months were overly optimistic. In our view, there was absolutely no hint in the speech that could spur market expectations for interest rate cuts. We think that interest rates will remain unchanged this year.

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