11 May 2023

# Economic Comment

## Too early for questions about rate cuts

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

The message from the NBP president's conference was not very different than in April: the MPC has not ended the tightening cycle, all options are still on the table and next decisions will be data-dependent. Asked about the possible timing of interest rate cuts Adam Glapiński said that the question is very much premature, as inflation remains very high and there are no such considerations in the central bank at the moment. In such situation more appropriate would be – in his view – a question about conditions for rate hikes. He emphasised that the MPC would not hesitate to raise rates if inflation surprises to the upside. However, he also did not rule out that conditions for rate cuts would arise later this year, but it would require a "radical" drop in inflation and no doubts about its convergence towards the target – at this stage it is still too early to be sure about it.

NBP governor predicted that economic growth and real wages should revive in the nearest quarters, but it should not stop a downward trend in CPI. He also calmed down worries about core inflation, saying that it usually lags the headline CPI and should start declining in the coming months. Glapiński confirmed central bank's inflation predictions: CPI in 7-9% range at the year-end (same as in April), adding that the recent zloty appreciation should help in disinflation and - if sustained - it could lower inflation by up to 1pp. Earlier he said that according to central bank estimates 10% currency appreciation lowers CPI by c.0.4pp, which implies that to get 1pp effect, EURPLN would have to move much more than it has already done (the nominal effective rate of the zloty gained c.10% since September 2022).

Summing up: despite the resurgence of dovish comments from the MPC members that we have seen at the start of May, the official rhetoric of the central bank has not changed and remains cautious, which we think is a right decision. If we are right about the inflation outlook (and we still see CPI near 10% at the year-end), there will be no room for starting monetary easing this year. It seems that the market pricing of interest rate cuts starting already this year was (again) premature and may start reversing.



**Economic Analysis Department:**

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Cezary Chrapek +48 887 842 480
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857