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Economic Comment

Clouds gathered over rate cut scenario

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At today's conference NBP governor Adam Glapiński confirmed that the MPC cut main interest rates again this week mainly because the recent data confirmed a further decline of inflation and the new NBP projection showed improvement of inflation outlook. The low inflation in future should be supported by: 1) deceleration of wage growth, 2) lack of economic overheating, 3) continued PPI decline, 4) experienced inflow of cheap goods from China. The main short-term risk is the situation in the Middle East, but – as it is impossible to predict its further development and consequences – the Council did not take this factor into account at the last meeting.

Glapiński emphasised that, despite a rosy picture presented in the new NBP projection, black clouds have gathered on the horizon due to the situation in Middle East, and therefore the MPC does not commit to any future actions. If the situation stabilises in several weeks, or two months, then the central bank may return to the "old scenario", in which some small monetary easing is still possible – MPC members think that the terminal real rate should be at 1.0-1.5%, and Glapiński is in the "1.0% camp". However, the NBP governor is not very optimistic in this regard and in his own view the destabilisation would last longer. We tend to agree with this view, however the truth is that nobody knows for sure how the situation develops. Therefore, we keep our baseline scenario, assuming one more 25bp rate cut is possible in April (to 3.5%). This rate cut could move further in time or even become unlikely, depending on how the commodity prices develop in the coming weeks.

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