

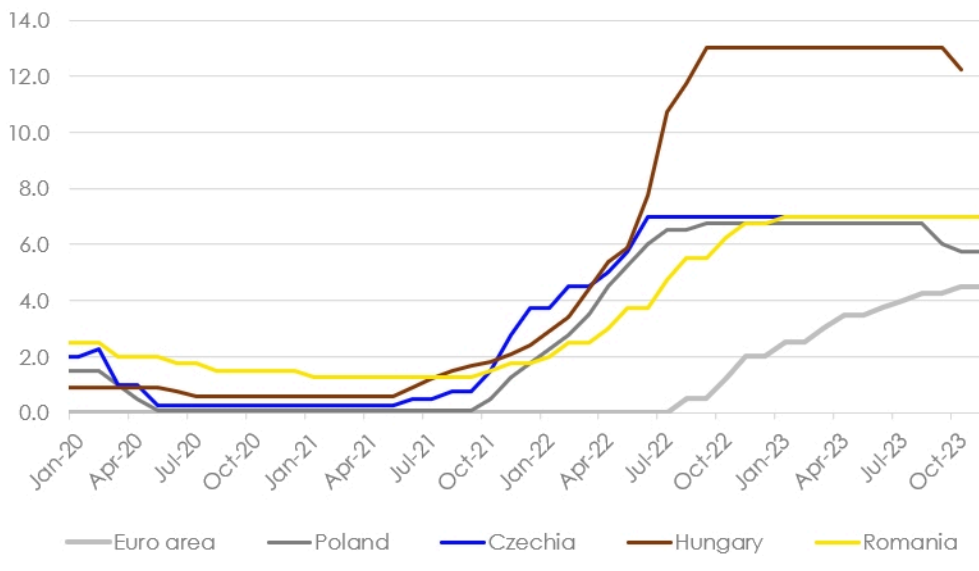
Poland Watch: MPC pauses the easing cycle

The MPC surprised and kept interest rates unchanged (key rate at 5.75%). The easing cycle was thus put on hold after 100bp cuts in total so far. We put our forecasts under revision as both political changes and today's decision create upside risks to our current rate outlook.



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Polish MPC pauses as rate cuts continue in Hungary and get delayed in Czechia



Source: Refinitiv, RBI/Raiffeisen Research

The decision to keep the rates on hold after cuts by 75bp and 25bp respectively in September and October underlines the changed monetary policy conditions that are likely to lead to higher rate path than we assumed before.

The consensus and market pricing assumed another 25bp cut but a pause afterwards. This has also been our assumption and already ahead of this week's decision we saw substantial upside risks to our rate forecasts. The reason for this is the same as the explanation provided by the MPC in its statement today explaining why it did not cut: the uncertainty about future fiscal and regulatory policy and how it will impact inflation. This is the result of the surprising outcome of October Parliamentary elections that will lead to the opposition taking over the power and is set to change the course of the economic policies in Poland. On the fiscal side the situation is already stretched while it is unclear whether the new government will prolong existing measures to limit inflation (freezing of electricity prices and lower tax on food) as well as to what extent it will deliver on

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elections promises. All of these could imply still loose fiscal policy that could limit room for monetary easing.

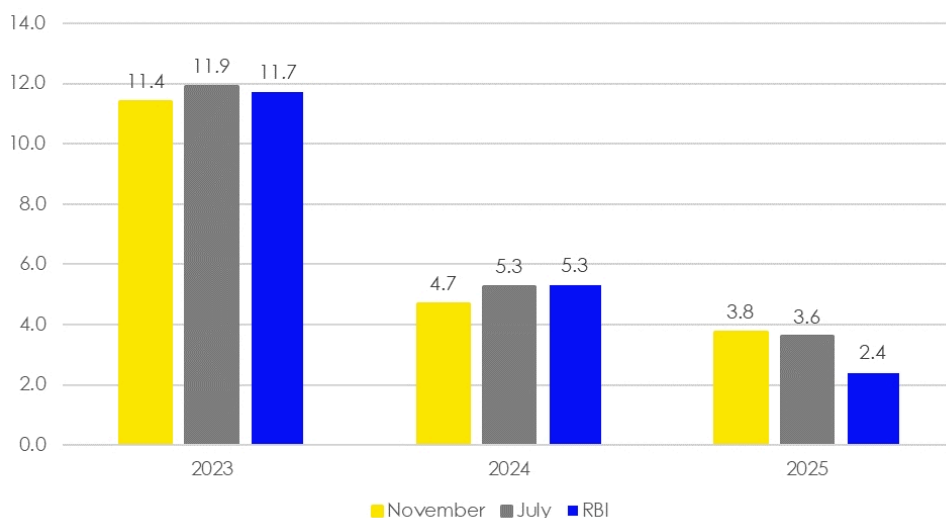
The regulatory situation indeed remains unclear which also affect our CPI assumptions. Currently, we assume some upward change in energy prices in January and prolonging the food tax cut. However, the former has been rumoured to be prolonged by the (current) opposition while uncertainty remains as to decisions about the food tax.

All in all this warrants cautiousness in monetary policy easing. At the same time the shift in MPC's stance marks another layer of uncertainty in terms of how the MPC led by former Law and Justice member will cooperate with a new government led by the opposition. Moreover, it also underlines the ongoing elevated uncertainty about MPC decisions and its reaction function similarly as it has happened with the surprisingly large 75bp cut from September.

Today we learned about the (now more hawkish) stance of the MPC while additional information came also from the partially revealed new economic forecasts from the NBP. While the full Inflation Report has not been released yet the new GDP and CPI forecasts outlined in MPC statement show improved GDP estimates compared to July (and closer to ours). The change in CPI forecasts is mixed (lower estimate for 2024, higher for 2025), and it is not clear what assumptions are made for regulatory decisions (we will know more from Inflation Report).

All in all, we got even more reasons today to lift our rate path for the next quarters. We will now reassess it as we get details on NBP assumptions in the Inflation Report and further information from the Governor's conference tomorrow at 3pm.

NBP's new inflation forecasts vs July and vs RBI

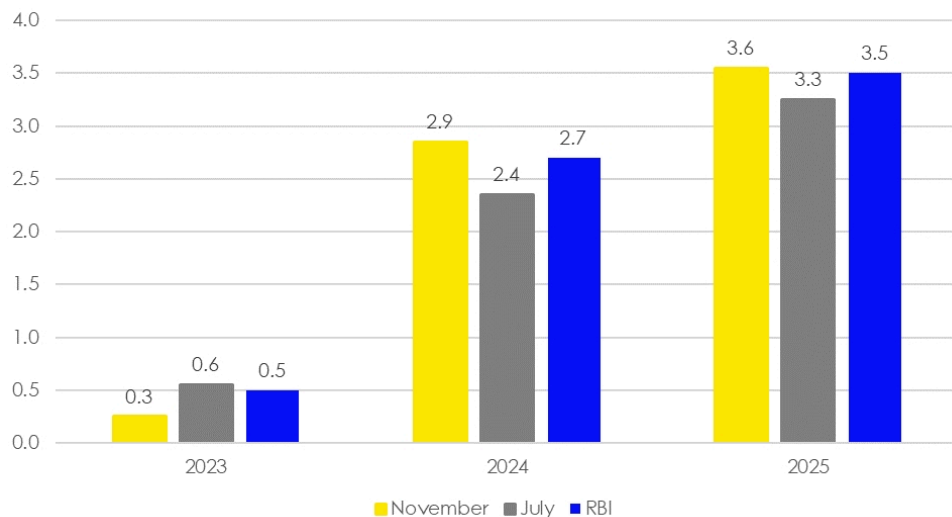


data in %, yoy

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NBP's new GDP forecasts vs July and vs RBI



data in % yoy

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