Poland’s central bank governor takes an even more hawkish stance

The National Bank of Poland's governor has taken an even more hawkish stance in Friday's press conference. A rebound in inflation should delay discussions on rate cuts beyond the fourth quarter. But we detect a deterioration in transparency and believe the NBP is relying on an excessively pessimistic view on CPI

National Bank of Poland Governor, Adam Gaplinski

A hawkish stance in the statement

The statement following yesterday’s meeting had a hawkish tone, similar to the December address by NBP Governor Adam Glapiński. At that time, he surprised with rhetoric about postponing discussions on rate cuts to October 2025, mainly due to the pro-inflationary thawing of energy prices from fourth quarter 2025, with actual cuts not expected until 2026. Therefore, today we expected an emphasis on inflation risks, which push the prospects of cuts further away. This indeed happened. The Governor suggested that the discussion on rate cuts is moving beyond the fourth quarter of 2025, and the presented inflation projection and situation assessment show a significant increase in aversion to monetary policy easing.

Describing current inflation trends, the NBP Governor reminded us that inflation has significantly increased since July 2024 and in December was almost twice the NBP’s target, soon to exceed 5%

year-on-year. Glapiński again devoted much attention to regulated prices. The reasons for the CPI increase include energy prices, the reinstatement of VAT on food, excise duty hikes on cigarettes, and the rise in cold water supply and sewage service prices. The dynamics of market service prices remain high. In the coming quarters, inflation will not move towards the target. It will temporarily decrease in the third quarter, but in in the fourth quarter it may significantly accelerate to 4.6% YoY due to the increase in regulated prices.

In our opinion, regarding electricity prices and the impact of this factor, the Governor again presented a pessimistic scenario assuming that electricity prices will rise in the autumn. We believe that lower wholesale electricity prices compared to retail prices indicate that inflation should not rise in the fourth quarter and will be around 3.6% YoY, not 4.6% YoY as the NBP announced.

According to Glapiński, the expected increase in inflation in the fourth quarter will delay the return of inflation to the target in 2026, leading to higher inflation expectations and wage demands. The Governor noted the increase in household inflation expectations following the partial thawing of energy prices in July 2024. Among the upward risks for inflation, the NBP sees double-digit wage growth, which translates into a high rate of service price increases. Core inflation remains elevated and will stay around 4% in 2025. Wage increases in the public sector have contributed to this. Additionally, an economic recovery has a pro-inflationary effect.

Gapliński says he believes the current exchange rate of the zloty is acceptable for the economy, falling within a range that exporters and importers consider acceptable. He admitted that a high exchange rate has an anti-inflationary effect but added that its impact on inflation is small. NBP surveys indicate that entrepreneurs are not primarily concerned with the current exchange rate but rather with a lack of demand, stagnation in Germany, and wage increases resulting from a tight labour market.

The forward guidance and monetary policy outlook

In our view, the NBP's communication has continued to deteriorate, and it appears its transparency is decreasing. Currently, the NBP Governor believes that the inflation forecast he presented (outside the regular calendar with projections in March, July and November) postpones the start of the discussion on cuts beyond 4Q25. At a previous press conference, the Governor announced that the discussion on easing would start in October 2025, and in November, he reported that the Council would start discussing cuts in March 2025. In the NBP's view, regulatory decisions change the conditions for conducting monetary policy. The discussion can begin after the peak of inflation (i.e. for 2026) and with forecasts indicating a steady decline in inflation towards the target. At present, according to the NBP President, these conditions are not met.

Professor Glapiński also presented a new interpretation of the NBP's target. A year ago, he said that the NBP aims to bring the CPI down to the target level and, if conditions allow, to support GDP growth as well. Today, he points out that the NBP is guided only by inflation. However, the CPI projection he presented is in our view a pessimistic scenario, assuming a jump in CPI in fourth quarter 2025 from 4.6% Year-on-Year. In addition, his assessment of the macroeconomic situation and the weights he assigns to individual macro variables are changing, which in our view appears to undermine transparency. Previously, he downplayed CPI changes caused by supply-side factors and regulated prices (because they are independent of the NBP). Today, regulated prices are mentioned even before core inflation.

Adam Glapiński reiterated that the precondition for starting discussions on cuts is that inflation stabilises, and the projections show it returning to target in the coming quarters. In our view, CPI inflation will be around 3.6% YoY in 4Q25, not 4.6% as the new NBP projection showed, which would mean that cuts are still possible in 2025. Moreover, real interest rates are high and the economy is showing more and more symptoms of a restrictive policy (weak business credit and investment, high consumer savings). However, the volatility of forward guidance makes forecasting difficult.

In our view, we may experience unnecessary costs on the economy and non-transparent communication may keep investors away from the Polish debt market, which could raise the cost of financing the budget deficit.

Authors

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Disclaimer