National Bank of Poland governor maintains hawkish rhetoric

Rates remained unchanged in May 2024, cuts may start in second quarter of 2025 after the expected CPI peak, but should be limited in scale given persistent core inflation

NBP Governor Adam Glapiński

The assessment of the economic situation

The overall tone of NBP Governor Glapiński during his press conference on GDP was rather positive. He said that Poland's GDP growth rate in 1Q24 accelerated relative to 4Q23, and that the following quarters should bring a further recovery despite a bit weaker March data. At the same time, economic stagnation in Germany is limiting the economic recovery in Poland. The tense geopolitical situation is also a risk for Polish GDP, because developments on the frontline in Ukraine may affect economic sentiment in Poland. Governor Glapiński added that accelerating growth should, however, translate into greater inflationary pressure. He pointed to rapid post-pandemic growth in Poland and advancing real convergence.

Price processes

As in previous pressers, the NBP governor expressed satisfaction with the recent decline in CPI inflation to the NBP target, suggesting that this is a result of the success of the NBP's monetary policy. However, we have to note that core inflation still remains elevated. Actually, Governor

Glapiński himself noted elsewhere that core inflation is stubbornly high and it is this part of the price processes (domestic inflation) that is most influenced by monetary policy. Hence, we do not understand the over-satisfaction with the decline in CPI inflation to the target, as it is temporary only.

According to the NBP, CPI inflation will rise in the coming quarters due to, among other things, the reintroduction of VAT on food and the unfreezing of energy, gas and heating prices. The central bank also estimates that inflation should rise to around 5.5% year-on-year by the end of the year, given the scenario for energy prices coming from the energy bill adopted by the government recently. This is in line with our forecast presented earlier this week.

Governor Glapiński highlighted the decline in core inflation in recent months, but in the following months of 2024 the NBP sees this measure of inflation stabilising at a stubbornly high level above 4% (4.2% at the end of 2024). Our models indicate the same core inflation trajectory. The main inflationary risks are the increase in VAT on food, the unfreezing of energy prices, the risk of rising inflation expectations and high wage growth, as well as expansionary fiscal policy and geopolitical uncertainty and the expected economic recovery. Inflationary expectations may have a pro-inflationary impact from both the cost side (cost increases, especially in labour-intensive services) and the demand side. The extent of the increase in households' propensity to save is also a source of uncertainty.

Monetary policy outlook

The NBP governor assessed that CPI inflation will continue to rise in the remainder of the year, while core inflation will remain stubbornly high, so this is not the moment to ease monetary policy. Therefore, in the Monetary Policy Council's view, NBP rates should be maintained at the current, relatively high, level. Governor Glapiński did not outline the timing for the possible start of interest rate cuts, reiterating that the Council's decisions would depend on incoming data.

According to Glapiński, at the beginning of 2025, the NBP projections may indicate a sustained decline in inflation to the central bank target, which could give grounds for discussions on rate cuts. Glapiński added that there is no readiness in the Council for interest rate cuts in 2024.

Communication inconsistencies

We also see a lot of inconsistencies in the communication of the NBP president. On the one hand he underlined that "there is no core inflation," but in another part of the conference said that it is stubbornly high and will remain high at 4% in the second half of 2024. Governor Glapiński assessed that the NBP's policy so far has been correct, as even the VAT increase has not pushed the CPI inflation above the target. In our opinion, it is difficult to be so optimistic, as core inflation shows prices rising as much as 0.5% in each of the last four months, and this after a year of collapsing consumption in the longest period of weak household demand in years. The NBP chairman often compares NBP actions with the decisions of the ECB and the Fed, and here too we see inconsistency. Developed market banks do not express so much satisfaction with the decline in CPI inflation, as long as the monthly core is not close to 0.2% month-on-month. Meanwhile, in Poland the core has persisted at 0.5% MoM for the last four months, which contrasts with the MPC chairman's positive assessment of NBP policy.

Conclusions

After reaching a local low of 2.0% YoY in March, inflation rose to 2.4% YoY in April and should continue to trend upward in the months ahead. In addition, the NBP expects core inflation to remain stubbornly high in 2H24 and 1H25, with additional upward pressure on prices from wage pressures, the withdrawal of the energy shield, GDP recovery and fiscal expansion. We expect that in an environment of rising inflation, the MPC should be reluctant to soften its rhetoric. One of the concerns often mentioned were inflation expectations which can rise in response to higher headline inflation in coming months.

The path of CPI inflation (around 5.5% YoY by the end of 2024) and core inflation (around 4% YoY by the year-end) presented by President Glapiński is close to our expectations we posted before the MPC meeting. Our baseline scenario assumes interest rates to remain unchanged until the end of 2024, with the first cuts expected in the second quarter of 2025 after the expected CPI peak in March 2025, and a total of 75-100bp in rate cuts next year.

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