National Bank of Poland preview: Rates to remain unchanged as low CPI proves temporary

We're expecting rates to remain unchanged in April as the National Bank of Poland sticks to a cautious approach amid uncertainty surrounding the medium-term inflation outlook. Our baseline scenario assumes that this will still be the case through to the end of 2024

Inflation comes in below target - but is it sustainable?

In March, headline inflation in Poland fell to 1.9% year-on-year, below the central bank's target of 2.5% (+/- one percentage point). However, it has likely come about in an unsustainable manner. We believe that the March reading is likely to be a local low, and CPI inflation will start climbing again over the coming months.

Firstly, the 0% VAT on food expired at the beginning of April. While some large retailers pledged to keep prices of key food products unchanged (amid the ongoing price war), we expect higher tax to eventually feed into prices – which will potentially prove to be a slower process than a one-off adjustment. Second, the energy shield will expire in the second half of 2024, leading to some increases in electricity prices. Third, and most importantly, core inflation stays elevated and is expected to remain sticky amid a tight labour market, robust wage growth and an expected recovery in consumer demand driven by the highest growth of disposable income in over two decades.

Focus on core inflation

We expect that over the coming months, the MPC will focus more attention on core inflation. Two-thirds of disinflation in Poland is currently driven by low price dynamics of tradeable goods, food, and favourable developments in energy commodities. At the same time, core inflation remains high (around 4.6% YoY in March), and its momentum is uncomfortably buoyant (around 0.5% month-on-month). Services prices in particular continue expanding at a high pace (7% YoY in February). The domestic component of CPI inflation indicates that inflation is not yet under control, and the low headline rate is currently a reflection of a favourable external environment and high reference base. With wages expanding at a double-digit pace, more effort is needed to bring inflation to the target in the medium term.

MPC to stress upside inflation risks and keep rates high

The MPC's reaction function has taken a 180 degree turn over the last few months, and the council's hawkish approach now stands in stark contrast to the ultra-dovish tone seen previously. Given the uncertainty regarding the inflationary outlook, the MPC is likely to stick to its cautious approach and may refrain from monetary easing this year. At Friday’s press conference, we expect National Bank of Poland Governor Adam Glapiński to stress upside risks to the inflation outlook, including 1) elevated core inflation, 2) an expected increase in regulated prices, 3) high wage growth, 4) a consumption-led economic recovery, and 5) expansionary fiscal policy.

We hope that the conference will not be dominated by comments discussing the motion from members of the Polish parliament to bring Governor Glapiński before the State Tribunal. Upside risks to the inflation outlook will be the main rationale behind keeping rates at relatively high level over the coming months. We forecast that the NBP will keep rates unchanged through to the end of 2024. The debate on monetary easing may start in the fourth quarter of this year if the upswing in inflation turns out lower than feared and the medium-term outlook improves. In 2025, we expect to see 75-100bp of rate cuts from the central bank.

Author

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

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