Poland’s central bank governor delivers most hawkish conference of year despite weak data

While the euro yield curve is pricing in a dovish pivot by the European Central Bank, the National Bank of Poland is tightening its policy bias. We find it hard to believe that in such an environment, monetary policy easing will not happen at all in 2025

President of the National Bank of Poland, Adam Glapinski

Press conference

We see today’s speech by President Adam Glapiński as strongly hawkish. This is illustrated by the appreciation in the EUR/PLN rate from 4.275 to 4.26 in the first few minutes of the conference.

The main conclusion from the conference is that, according to the MPC, extending the energy price freeze next year would result in an unfreezing in 4Q 2025, thereby introducing a later inflation risk. This postpones the return of inflation to the central bank's target by six months compared to the baseline scenario in the NBP's November projection, thereby delaying the start of the easing cycle. Discussions about rate cuts will now begin in 4Q 2025, rather than March 2025, once the regulatory decisions regarding energy prices after their unfreezing are better understood.

Before yesterday's MPC meeting, it appeared that the NBP's alternative scenario from the November projection, which assumed a continuation of the energy price freeze, had become the baseline scenario. It turns out that this was not the case. In the MPC's view, the decision to extend the energy price freeze from January next year means a slower, not faster, return of inflation to target. The only question that arises is, what was the purpose of presenting the alternative scenario in November if the probability of it being realised, according to the MPC, is zero? The NBP governor omitted the fact that the government's decision to freeze electricity prices is valid until the end of September 2025, but at the same time, government representatives have explicitly stated that tariffs will not be raised when the freeze ends. Additionally, the situation in the wholesale energy market, and forecasts for commodity markets (taking into account President-elect Trump's plans to increase the supply of gas and oil worldwide) indicate that retail electricity prices may not change after the unfreezing.

Forward guidance

According to the governor, the March projection will not be the trigger for a discussion about easing. This statement is important because most of the comments from the Monetary Policy Council (MPC) members last month indicated that the discussion on rate cuts would begin in March next year, along with the new projection from the NBP. Today's statement from the governor suggests that the timing of the discussion is being pushed to 4Q 2025, when prices will be determined after the price freeze ends.

Selective on the current economic situation and little on the external environment

During the conference, we learned little about how the Council is interpreting the latest GDP structure data for 3Q 2024, including the surprisingly weak consumption dynamics and the deepening decline in private investment. The governor only mentioned good data for retail sales and production in October and that growth will accelerate next year.

The governor also omitted that expectations for easing monetary policy by major central banks, including the ECB, are rising, partly due to the negative impact of tariffs on the eurozone economy. Instead, the stagnant external environment was discussed, particularly in Germany, where industry, based on cheap Russian gas, has collapsed. We also learned that the German economy is constrained by environmental policy and competition from China. Therefore, Germany is losing its share in global trade.

Pro-inflationary regulatory policy

A significant part of the conference was about administrative price hikes and their impact on inflation. The governor showed that the annual dynamics of administered energy prices in Poland were the highest among all EU countries. He also mentioned that the contribution of administered prices to October's inflation was 2.7 percentage points, while the other components contributed only 2.3 percentage points. He also provided estimates of the impact of energy price changes in the second half of 2025 on CPI inflation: 0.4 percentage points for the reintroduction of the capacity fee for electricity, and 0.7 percentage points for the unfreezing of energy prices. He also mentioned that the level of tariffs for natural gas and distribution fees for electricity is uncertain.

Loose fiscal policy

The governor emphasised that fiscal policy is very loose. The deficit will be high in 2025, the structural deficit will also increase, and there is a clear upward trend in public debt. Fiscal policy limits the room for monetary policy easing, with consolidation expected to begin in 2026.

Elevated core inflation

A path for core inflation was also presented, which will be slightly above 4.0% year-on-year by the end of 2025. The governor indicated that core inflation is at an elevated level due to the dynamics of service prices, which are driven by high wage dynamics. He also stressed that currently, core inflation in Poland is lower than in other countries in the region. He forgot to add that the NBP projections for core inflation are higher than those of the Czech National Bank and the National Bank of Hungary.

Summary

The euro yield curve is pricing in a dovish pivot from the ECB due to deeper rate cuts in response to Trump's expected protectionist policy. The NBP, meanwhile, is tightening its bias. We find it hard to believe that in such an environment, monetary policy easing will not happen at all in 2025. So far, we have assumed 100bp of cuts next year, significantly less than the market has been pricing up until recently (225bp). Today, our scenario seems optimistic. This calls for a stronger zloty and a flattening of the yield curve. The short end should suffer by reducing the expectations for cuts priced in. But at the same time, a hawkish MPC supports the long end of the curve, at the expense of economic growth, because the NBP has cemented its position as the most hawkish central bank in the region, and perhaps even in Europe.

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