Article | 5 December 2024

Poland

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.

Author

Rafal Benecki

Chief Economist, Poland rafal.benecki@ing.pl

Michal Rubaszek

Senior Economist, Poland michal.rubaszek@ing.pl

Leszek Kasek

Senior Economist, Poland leszek.kasek@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies). The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s),

Article | 5 December 2024

as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.

Article | 5 December 2024