National Bank of Poland president has a positive disinflationary message for the new year

Governor Glapiński stated that based on history a radical disinflation process can be very costly. This suggests that the central bank is unwilling to tighten policy further to accelerate disinflation. The governor hopes that interest rates can be cut at the end of 2023, but we see it unlikely due to elevated and persistent core inflation

President of the National Bank of Poland, Adam Glapiński

Current inflation

At the January 2023 press conference, National Bank of Poland President Glapiński positively assessed the deeper-than-expected decline in CPI inflation in December (16.6% year-on-year, down from 17.5% in November). At the same time, he stressed that current inflation is very high and that reaching the inflation target is still a long way off and the disinflation process will be gradual.

External environment

President Glapiński noted the weaker economic environment surrounding the Polish economy, including the technical recession in the euro area. The underlying cause is the war in Ukraine. The first effects of the tightening of monetary policies of the major central banks are also visible. This is accompanied by a favourable situation on the labour market, although wages are falling in real terms. In Poland, this has been the case since May 2022.

Inflation outlook in Poland

The NBP head stressed that global commodity prices have been falling recently, although they are still several times higher than three years ago, before the pandemic and the war in Ukraine. He also noted the slower dynamics of agricultural commodity prices and improvements in global supply chains. The reduction in producer inflation PPI indicates lower cost pressure. According to the NBP, the disinflation will not be rapid and steep. CPI inflation will pick up in January and February (although it is difficult to assess whether it will exceed 20% YoY) and then decline to single-digit levels by the end of 2023, possibly as low as 8% YoY in December this year.

PLN exchange rate

President Glapinski noted that the zloty exchange rate is stable and resistant to external turbulence despite NBP rates remaining unchanged in recent months. Unlocking the funds from the EU Recovery and Resilience Facility would be positive for the zloty rate, although the NBP president assessed its impact on GDP and inflation as negligible. In his view, full utilisation of these EU funds would accelerate Poland’s GDP growth by 0.4 percentage points in the first year and by 0.2pp in following years.

Monetary policy

In the Monetary Policy Council's view, the level of NBP interest rates (6.75%) is adequate in the current environment. Once again Governor Glapiński expressed hope that interest rates could be lowered late this year, although this hope is lower as forecasts for end-2023 CPI inflation are higher (around 8% YoY in December, rather than c.6%). He pointed out that for this to happen the fall in inflation must be judged as sustainable.

Conclusions

In our view, the NBP governor statements suggest that the NBP will not aim to bring down inflation quickly to the de jure inflation target of 2.5% with a +/-1pp deviation. The de facto inflation target is a gradual reduction in headline CPI inflation. In our assessment, after the rise in inflation in January and February, the disinflation process in the following months will be accompanied by a persistently high level of core inflation, several times higher than the NBP's inflation target. This will not allow for NBP interest rate cuts this year.

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