

Polish interest rates likely to remain flat; rhetoric to stay hawkish

While we do not expect any changes to Poland's monetary policy parameters and Governor Adam Glapiński's rhetoric is likely to remain hawkish, we assume some changes to the National Bank of Poland's staff projection update, both on GDP and the inflation outlook



Poland's Monetary Policy Council started a two-day meeting today during which it will be informed about the new NBP staff projections. The March projections were based on two low-probability scenarios, which assumed a full extension or full withdrawal of the anti-inflation shielding measures on food and energy prices. In the former scenario, the projected headline inflation rate in 4Q24 stood at just 3.4%, whereas in the latter it surged to 8.4%. In the current projection, the path of anti-inflation shields is broadly known: the value added tax on food products of 5% was restored starting from 1 April 2024, whereas retail electricity and natural gas prices increased by about 18% and 20% from 1 July. Consequently, we expect that this week the NBP will reveal a single, most probable scenario for the Polish economy.

In comparison to the March projection, the available data for 1Q24 will probably modify the NBP's view on inflation and growth. Although the GDP reading (2.0% year-on-year) was very close to the projection (2.1% YoY), its structure was very different. The NBP seriously underestimated the

rebound in private consumption (2.8% vs. actual at 5.9%) and overestimated fixed investment dynamics (1.6% vs actual at -1.8%). Regarding GDP growth in 2Q24, the NBP projected it will amount to 3.6-3.7%, well above the current consensus of 3.0% which takes into account weak data recently on activity in manufacturing and the construction sector. We therefore expect the NBP to lower its GDP growth projection for the short-term horizon.

Regarding price developments, core inflation in 2Q24 was 3.9% (our estimate), well below 4.4% from the March projection. In contrast, wage dynamics in 1Q24 at 14.4% YoY were higher than the projected 12.6%. In our opinion, the decline in inflation observed in recent months was possible thanks to a mix of three short-term factors (energy price decline, appreciation of the Polish currency as well as a sizeable squeeze of profit margins), whereas the medium-term trend linked to wage dynamics remains elevated.

We, therefore, expect that in the July projection, the NBP will point to inflation increasing to around 5% in 4Q24 (due to the unfreezing of electricity and natural gas prices as well as persistently high services inflation), peaking in 1Q25 and then gradually declining to around 3% in 2026. In this context, it is worth recalling that during the June conference, Governor Glapiński presented the scenario of a partial removal of anti-inflationary shields, which led to CPI inflation rising to 5.2% by the end of this year.

The elevated and persistent core inflation pressure, combined with the temporary increase of administered prices, leaves little room for rate cuts this year. We therefore expect that Governor Glapiński will re-emphasise his view from last month that the probability for any rate cut this year is zero. Regarding the medium term, MPC decisions will predominantly depend on wage dynamics, which have a substantial effect on core inflation developments, mainly in services. In the March projection, wage dynamics stood at around 7%, i.e. above the level consistent with reaching the 2.5% target. We are waiting for the new NBP forecast for this variable.

In terms of tomorrow's decision – we expect interest rates to remain flat, with the reference rate at 5.75%. The press release should reflect changes to the NBP's staff projection. At Thursday's press conference, Governor Glapiński is expected to maintain his hawkish rhetoric. In our view, rising inflation leaves no space for any monetary policy easing in 2024. We expect a relatively short window for easing of 75bp in total in 2025.

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