

Zero chance of rate cut this year, says Poland's Glapinski

The president of the National Bank of Poland was unambiguously hawkish during today's press conference. Although inflation in May was exactly at target (2.5%), it is expected to rebound to 5.2% by the end of this year in the baseline scenario



NBP Governor Adam Glapiński

NBP President Adam Glapinski began the conference with a reminder that Poland is catching up to Western European countries in terms of GDP per capita. At the same time, he pointed out that as Poles get richer, their willingness to work hard will decrease, which will lower the prospects for further growth. This is an interesting thread in the discussion on the medium-term development prospects of the Polish economy, i.e. to what extent changes in labour supply (number of people working and average working time) will limit growth in the coming years. It is worth noting here that the latest NBP projection assumes a relatively fast rate of potential growth (3.0, 3.4 and 3.5% in 2024-26).

The conference began with some comments that were rather unrelated to yesterday's MPC decision, notably that:

- the introduction of the euro would be detrimental to Poland

- cash is a hedge against cyber attacks
- the NBP's record loss in 2023 was due to the strengthening of the zloty and the cost of keeping NBP interest rates high.

Inflation set to rebound

In justifying the MPC's decision to leave interest rates unchanged, Glapinski indicated that, although inflation in May was exactly at target (2.5%), it is expected to rebound to 5.2% by the end of this year in the scenario of partial removal of the energy shield (electricity, gas, heat). However, in the scenario of a complete abolition of the shields, inflation is projected at 7.5%, and at 3.8% if they are maintained. This means that, according to the NBP, the expected rebound in inflation is due not only to the removal of the shields but also to the fact that the medium-term trend in inflation is above the 2.5% target.

Glapinski said that inflation had already been within the inflation band for four months, which he considered a great success for NBP policy. Later in the conference, however, he discussed processes that are more difficult to classify in terms of success.

1. First of all, the fall in inflation has been described as temporary and is partly due to the fall in commodity prices. There is, therefore, a high risk that the increase from currently low levels will be a pro-inflationary factor in the future.
2. More importantly, core inflation, particularly in the service categories, is persistent and at elevated levels. This is due, among other things, to high wage dynamics (over 14% in 1Q), the future level of which is difficult to determine. In our view, the unstable wage dynamics are one indication that inflation expectations are weakly anchored.

President Glapinski stressed that the MPC is focused on keeping inflation permanently within the inflation target. Therefore, the probability of an interest rate cut in 2024 is zero. What's more, he said that 'if inflation rises then the MPC will not hesitate to raise interest rates'. Factors limiting the chances of loosening monetary policy parameters are the ongoing economic recovery, rapid wage growth, loose fiscal policy, and the projected rise in inflation. In contrast, the strong exchange rate of the zloty, supported by the current level of NBP rates, is helping to lower inflation. Moreover, the European Central Bank's rate cut and the Federal Reserve's expected rate cut should support the zloty. At the same time, Glapinski mentioned that if the decline in inflation is sustained, the MPC would be happy to cut interest rates. In the final part of the conference, he said that he hoped such a situation would arise in mid-2025.

Rate cuts unlikely until next year

To summarise, the tone of the NBP President's conference is unambiguously hawkish. The CPI inflation path presented (5.2% YoY in 4Q24) is close to our expectations (4.9%). We keep our view that the Council will not change interest rates in 2024, with cuts coming only in 2025. This may take place only after a reversal of the upward trend in inflation, the local peak of which we expect in 1Q25 (e.g. another hike in energy prices, reinstatement of the power capacity fee). We assume that NBP rates will be cut by a total of 75bp next year.

Author

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@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), 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.