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.

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