

Cautious tone of Polish MPC Governor press conference

The NBP president's conference was short and cautious in its tone. The NBP may be heading in the direction of the conservative Czech National Bank. In our view, rates will remain unchanged until at least March 2024



National Bank of Poland, governor Adam Glapinski

Weak global economy, signs of recovery at home

During his press conference, the NBP Governor Adam Glapinski assessed that the data received since the previous MPC meeting does not fundamentally change the assessment of the economic situation and its outlook. The external environment remains weak. The Eurozone is in stagnation and activity in Germany is declining.

In Poland, economic activity remains subdued, but there are increasing signs of recovery. After declines in 1H23, 3Q23 saw GDP growth of 0.5% YoY. According to Glapinski, the economy is beginning to improve.

Global inflation is subsiding but still remains elevated. Major central banks, including the Fed and ECB, are keeping interest rates unchanged.

The NBP expects continued CPI decline, but at a slower pace

President Glapinski reiterated that inflation in Poland is falling and is on a path to the NBP target, which it should reach within two years. Glapinski reiterated how much inflation has fallen (it is almost three times lower than at the February peak), adding that the core is falling as well and is around 5pp down from the peak.

He noted that the decline in inflation has slowed and will also be slower in the coming quarters. In the Council's view, inflation will continue to fall due to reduced economic activity (negative output gap) and earlier monetary tightening, which cooled activity in the credit market. Also favourable for the inflation outlook is the strengthening of the PLN by about 20% against the US\$ and about 10% vs. the €. Professor Glapinski was very neutral on the PLN exchange rate.

Uncertainty prompts MPC to adopt wait-and-see stance

The Governor's statements indicate that the MPC is adopting a wait-and-see stance, but definitely not a hawkish one. The MPC is waiting for decisions on electricity and gas prices, as well as VAT on food, the reinstatement of which could bump up inflation by about 0.9ppt. Therefore, the Council should take a closer look at inflation prospects on the occasion of the NBP's March projection, when the aforementioned uncertainty factors should be resolved. The Council's subsequent decisions will depend on incoming data.

Bottom line

A communications revolution at the NBP took place. Yesterday's decision was made earlier than usual, i.e. at 2:29 CET and the Governor's conference lasted only 27 minutes. Could it be that the NBP is heading in the direction of the (conservative) Czech National Bank? During his speech, Glapiński declared willingness to cooperate with the new government and flagged cautious rate decisions in the future.

In our view, a more disinflationary external environment, a stronger PLN and a more cautious NBP suggest that the risk that inflation will remain above target for a long time has moderated somewhat. Rates should remain unchanged until the end of 2024 as there is still no shortage of inflationary factors. For instance, we expect further fiscal expansion, increased wage dynamics (i.e. due to a 20% increase in the minimum wage in 2024), large inflows of EU funds and foreign direct investment.

But rate cuts cannot be completely ruled out either. The space for interest rate changes could emerge in March, should global disinflation prove rapid and sustained and the zloty continue to gain.

Our baseline scenario assumes that interest rates will remain unchanged, but the distribution of risks is skewed toward potentially lower inflation and the chances of earlier interest rate cuts than in 2025.

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