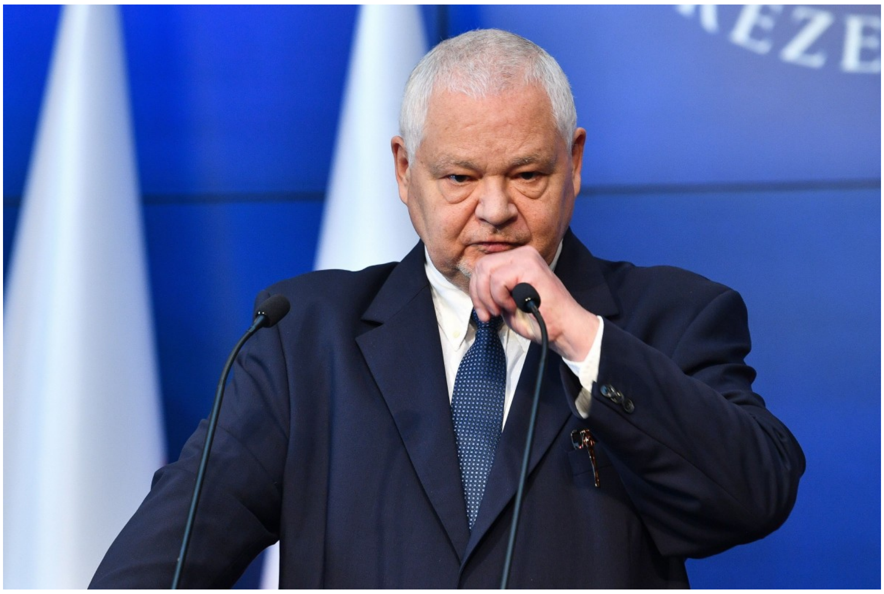
Dovish National Bank of Poland press conference and de-facto easing guidance

The central bank is concerned about the rapidly deteriorating economic outlook and confident about further disinflation. Policymakers de facto presented a guidance for further easing



Adam Glapinski, President of the National Bank of Poland

Economic conditions deteriorate more than expected

According to the National Bank of Poland (NBP) governor the situation in the external environment has "radically changed". In particular, the German economy faces recession, which will negatively affect Polish exports. He also noted the disappointing developments in China. According to Governor Glapiński, the previously expected slowdown in the global economy is proving to be deeper and longer.

With regard to domestic developments the Monetary Policy Council (MPC) chairman said that full-year GDP growth in Poland in 2023 would be low, close to zero, or even negative. The president expressed strong concerns about the outlook for economic growth, which will facilitate a further decline in inflation.

Inflation moderating faster than anticipated by the MPC

In the opinion of Governor Glapiński, inflation is no longer high, but "moderate", and will be close to "creeping" by the end of the year. In September, the NBP expects inflation to be slightly above 8.5%, which is already in single digits. Therefore, in the opinion of the NBP chair, the conditions outlined earlier, i.e. a fall in inflation to a single-digit level and projections indicating a rapid decline in inflation, have been met.

Glapiński is strongly convinced that inflation will continue declining and sees no serious threats to such a scenario. He recalled that NBP projections that inflation should continue going down and may reach the upper bound (above the NBP target) in 2025, but there are external forecasts pointing that it could even happen in 2024. Similar to yesterday's post-meeting statement, during the press conference the NBP head ignored potentially pro-inflationary factors, i.e. rapid wage growth and expansionary fiscal policy, among others.

The overall tone of the conference: very dovish

In our view, the tone of the conference was very dovish, with the chairman manifesting an aversion to positive real rates and even saying that before yesterday's cut, the real rate (at -3.4% vs. -10% in the first quarter of 2023) was "killing" for the economy.

Also, the NBP governor presented a stong aversion to bear the disinflation cost in the form of sacrificed economic growth or a deterioration in the labour market. The Fed chairman clearly declares that some deterioration in the situation of workers is needed for inflation to decline. At the same time, Professor Glapiński has again declared that he tolerates inflation at 5%, which is higher than the NBP target (2.5%, +/-1%).

The dovish stance was also manifested by a very tolerant approach to the weakening of the zloty. He considered yesterday's 2% drop in the currency a small change, as the zloty had previously strengthened 17%. In his opinion, such a weakening of the PLN has no impact on the CPI, especially in the face of the profound deflationary processes taking place abroad.

The MPC's assessment of the economic situation and the disinflation factors also showed the Council's sensitivity to weaker GDP growth. The chairman stressed that the slowdown is deeper and more prolonged and the recovery is weak, which lowers inflation and causes currency fluctuations. He added that the deflationary process is mainly related to the economic slowdown in many countries. In our view, he attributed a relatively small role to receding supply shocks.

We believe that the conference missed observations that other central banks point out. They say that the economic downturn is dampening inflation less than in previous business cycles because labour markets are relatively strong in the US and Europe. The same is true in Poland. Hence, many central banks are paying attention to stubbornly high services inflation.

Bottom line: further easing before the end of the year

During the press conference, Glapiński presented a very dovish approach. He admitted that inflation was falling faster and the economic situation was deteriorating more than the Council's expectations. That was the main rationale behind the deeper-than-anticipated cut in the policy rate. At the same time, he presented a strong conviction that disinflation would continue: "we cut rates because we are confident that inflation will continue to fall".

The MPC head refrained from outlining any clear forward guidance whatsoever and declared that future decisions would be data-dependent. However, we believe he sent a strong signal about future easing. In our view, the Council will continue to cut rates as long as CPI inflation (in YoY terms) continues to fall. In the NBP president's view, the pre-cut real rate (at the end of August it was -3.4% vs. -10% in the first quarter of 2023) is devastating for the economy. We note that, according to the NBP, by the end of the year CPI will fall from 10% YoY to 6-7%. That implies a 300bp increase in the real rate (it will be less negative). We assume that NBP rate cuts will continue but on a smaller scale than CPI deceleration.

The market reaction to the NBP president's statements (weakening of the zloty seen yesterday and today along with further steepening of the yield curve) indicates that investors fear that rapid interest rate cuts may result in higher inflation in the medium term and the need for rate hikes.

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