National Bank of Poland preview: Staying hawkish for the next few months

The National Bank of Poland governor is likely to stick to a hawkish bias in February as we believe his overly pessimistic view on regulated prices and headline CPI for the fourth quarter should also stay unchanged. The NBP tolerance for a strong zloty is high. The Monetary Policy Council's Kotecki sees cuts from July onwards of 50-100bp, in line with our view

We expect the National Bank of Poland to keep rates on hold at 5.75%

The monthly data for December and the preliminary estimate for 2024 GDP suggest that the economy resumed its recovery in the fourth quarter after a weaker third quarter 2024. Retail sales resumed growth after a weak third quarter. We also see some improvement in the infrastructure part of the construction sector as the new cycle of public investment, driven by Recovery and Resilience Facility and EU Cohesion Funds, unfolds. However, the manufacturing sector is stagnating on a year-on-year basis. Some export sectors continue to grow, while others have stalled. We also see mixed signals from industries that could benefit from a recovery in public investment.

We estimate that GDP grew by around 3.5% YoY in the fourth quarter, compared to 2.7% YoY in the third quarter. The main driver of GDP, consumption, grew by a strong 3.5% YoY, but spending was less dynamic than in the first half of 2024. Investment activity remained stagnant (c.0.0% YoY), especially in the private sector, and even continued to decline. The negative contribution of net exports reached 1.1 percentage points, reflecting stagnation in Germany and the euro area.

Economic growth last year was close to 3%, broadly in line with forecasts made a year earlier. Poland was the only CEE country where economic performance did not disappoint initial expectations for growth prospects in 2024. Elsewhere in the region, growth was a third (Czech Republic) or even two-thirds (Hungary, Romania) slower than expected (consensus a year ago). Such an economic picture, together with the hawkish policy stance of the NBP, should allow the zloty to remain strong or even to strengthen further than we had expected. The outlook for the PLN also depends on developments regarding the war in Ukraine and the actions of the new US presidential administration in this regard. There are early signs that US President Trump is inclined to a more positive approach to the region after taking office, compared to statements made during the presidential campaign.

The National Bank of Poland (NBP) is expected to keep interest rates on hold at 5.75% in February. Since the January meeting, we've only had solid economic growth data and no new news on inflation. We expect Governor Glapiński – when asked what a firmer PLN means for the outlook – to emphasise Poland's floating exchange rate. The NBP only intervenes when currency moves are deemed excessive. Recent comments by MPC member Kotecki suggest that rate cuts will be delayed until the July meeting at the earliest, when the new projections will be published. We see room for 50-100bp of easing, although a stronger currency and the improved inflation outlook would call for a 100bp scenario, especially if the European Central Bank continues to ease.

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