

## National Bank of Poland governor signals flat rates till the end of 2024

Inflationary optimism has been swapped for scepticism. NBP governor Glapiński sees a V-shaped inflation path with a high risk of an upswing in the second half of 2024. In his view, it is unlikely that a majority will emerge within the Council to change rates by end of the year. Markets price in sharp monetary policy easing. We see flat rates by the end of 2024



National Bank of Poland Governor Glapiński

### Inflation outlook: V-shaped inflation path

Presenting the inflation outlook, the NBP president reiterated that inflation will fall sharply in the first months of 2024. According to Mr Glapiński, inflation is likely to return to the target temporarily in the first quarter and may be very close to 2.5% year-on-year in March.

Very high uncertainty surrounds the evolution of inflation in the second half of the year. The President emphasised the role of cost aspects, including in particular fiscal and regulatory factors (VAT on food and energy prices), which can cause a strong increase in inflation. Even in the case of maintaining a zero VAT rate on food and prolonging the freeze on energy prices, inflation would rise slightly to around 3% by the end of the year amid reference base effects. In contrast, in a

scenario with the withdrawal of the energy shield and the return of VAT on food, inflation would rise to around 8%. In practice, inflation in the second half of the year should be in the 3-8% range.

In the view of the NBP, the strong exchange rate of the zloty and the weakened economy (low demand pressure) have a disinflationary effect. President Glapiński also drew attention to the low inflation expectations of businesses and households. He added that the focus of the Monetary Policy Council (MPC) remains on core inflation, which remains above 6%, and the NBP's objective is to achieve the inflation target over the medium term in a sustainable manner.

## **Business conditions: low but positive growth**

According to Glapiński, the economic situation is not very bad as positive economic growth has been maintained. The significant increase in real incomes has not translated into an increase in consumption due to rising savings. At the same time, unemployment in Poland is one of the lowest in the European Union, with the exception of Malta. President Glapiński stated that the NBP's March projection will give a better picture of the situation with regard to inflation and economic growth prospects.

## **Monetary policy outlook: rates to remain unchanged until end-2024**

The message from the press conference is consistent with our conclusions from the MPC statement. The chances of even a symbolic rate cut have fallen to zero. Earlier we had assumed a 25bp cut due to the pressure of large rate reductions by other central banks in the region as well as in the US and the euro area.

The MPC's policy stance has shifted from ultra-dovish in 2H23 to neutral and even hawkish recently. This was reflected in many comments made during the press conference.

Firstly, before end-2023 the NBP governor claimed that real rates close to -3% were harming the economy. Today he noted that they are continuing to rise (towards positive levels) but are only having a chilling effect on inflation.

Secondly, the governor's inflationary optimism has been replaced by scepticism. There have been many comments on core inflation, its high current level and slower decline than in the case of CPI. In addition, uncertainty about the evolution of headline inflation in the second half of the year is very high. The governor remarked that it is the government's decisions on the pace of energy price normalisation and the reintroduction of VAT on food which should shape the path of inflation. Therefore, such restrictive real rates are appropriate for the current situation where the outlook for inflation in the second half of the year is very uncertain.

The Council is following a wait-and-see approach and will take decisions from meeting to meeting.

The main highlight of the conference, however, was the statement that by the end of the year there may be proposals for either a hike or a cut, but according to the chairman they will not gain a majority, so rates should stay flat.

In response to a question about a possible quantitative tightening (QT) and possible rate hikes mentioned earlier by Professor Dąbrowski from the MPC, Mr Glapiński stated that that is very unlikely. We share this view.

The Governor also sees no room for a rate cut in the second half of 2024, even in an environment of easing by other central banks because the NBP today is only 'killing the hydra' of inflation and by the end of the year this will be the case.

In our view, the chairman has again acknowledged that the MPC tolerates the strengthening of the zloty. Talking about holding rates unchanged, he quickly jumped to talking about strengthening the zloty and reiterated that this works disinflationary.

## Bottom line

In our view, rates will remain unchanged until the end of the year and a possible cut is not likely before 2025.

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