

National Bank of Poland governor sticks to hawkish bias; cuts not debated

The NBP is satisfied with low current inflation but expects it to bounce back. Hence policymakers maintain a cautious approach and potential rate cuts were not discussed by the Monetary Policy Council. We believe that Poland's rates will remain unchanged by the end of 2024 and expect 75-100bp of cuts to be delivered in 2025



National Bank of Poland Governor Glapiński

At the press conference National Bank of Poland Governor Glapiński noted with satisfaction that, after many months of high inflation, in February and March it was at levels consistent with the NBP target (2.5%; +/-1 percentage point). Glapiński blamed the pandemic and the war in Ukraine for the earlier rise in inflation, but presented the fall in inflation as a success of the NBP's monetary policy. The chairman of the MPC pointed out that the rapid decline in inflation came without any significant economic costs (no increase in unemployment or business bankruptcies).

In the NBP's view, however, the drop in inflation is temporary, and the central bank's objective is to bring inflation down to the target in a sustainable manner. Inflation is bound to increase in the coming quarters, but the scale of this increase is subject to extremely high uncertainty. Firstly, VAT on food has been reinstated since April, although the impact of this increase on prices is so far limited by market competition. Secondly, the energy shields will cease to operate in the second

half of the year, which will also drive inflation up. A full unfreezing of energy prices could push inflation up to 7.5% in the fourth quarter, and if the status quo were maintained, inflation would be at 3.9% at the end of this year.

President Glapiński presented a long list of pro-inflationary factors, including: (1) an increase in VAT on food, (2) the withdrawal of the energy shield, (3) high wage growth, (4) the emergence of new social benefits, (5) economic growth, (6) geopolitical tensions and a possible increase in commodity prices. On the other hand, the disinflationary effects are: (1) restrictive monetary policy, (2) weak cost pressures, (3) PLN firming and (4) a decline in inflation expectations.

In the NBP's assessment, inflation risks are clearly skewed towards faster price growth. In particular, Governor Glapiński strongly emphasised that high wage growth is a concern for the NBP and is a threat to inflation. Wage dynamics will contribute to inflation, even in a no-change scenario for energy prices. With risks to inflation in the coming quarters, Glapiński justified keeping interest rates unchanged and stated that the topic of possible rate cuts is not currently on the table.

We expect the Council to maintain a cautious stance in the face of the prospect of rising inflation in the coming months, with interest rates remaining unchanged until the end of 2024. We differ with the NBP in our assessment of the main inflation threats, but see grounds for maintaining a restrictive monetary policy in the coming months. In our view, the main challenge is not a temporary CPI inflation increase after the expiry of the energy shield, especially as this is beyond the control of monetary policy, also in the context of delays in the monetary transmission mechanism. A bigger risk in our view is stubbornly high core inflation amid a tight labour market (the second lowest unemployment rate in the EU), high wage growth and upward pressure on services prices. We expect space for interest rate cuts to emerge in 2025, with the main rate likely to be cut by 75-100bp.

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