

Poland's bank governor still hawkish despite the improved inflation outlook

Uncertainty about the sustainability of low inflation prompted the National Bank of Poland to keep rates unchanged.

President Glapiński's press conference was still dominated by hawkish tones. He stressed upside risks to inflation, including those from administrative prices. We expect rates to remain unchanged this year



The decision and its rationale

The press conference of NBP Governor Glapiński brought no surprises as he maintained a hawkish tone attempting to trim market bets on monetary easing.

The reason for keeping rates unchanged is uncertainty about the course of CPI in the coming months, including in our view exaggerated concerns about the impact of the release of energy prices on inflation. The governor presented two inflation projections. The first assumed the extension of measures freezing energy prices and zero VAT on food (best-case scenario). It was also presented in yesterday's post-meeting press release. It assumes average inflation of 3% in 2024 and 3.6% in 2025. The second one, with extreme assumptions, i.e. VAT on food will be raised and energy prices for households immediately adjusted to current official tariffs (worst-case scenario). In the later version, average inflation in 2024 is 5.7% and reaching 8% in December this

year. In our view, the second scenario is currently very unrealistic due to the fall in wholesale electricity and gas prices, even below the frozen retail prices. In addition, there have been announcements by the government that adjustments of energy bills should be gradual. Our forecasts assume the abolition of zero VAT on food from April and the gradual normalisation of electricity and gas bills, which adds a total of around 1.5 percentage points to CPI. For 2024 as a whole, we expect average inflation of around 4.3%.

The tone of the conference

Highlights of the NBP chair message, indicating the Monetary Policy Council's (MPC) hawkish stance:

- NBP main focus is inflation,
- acceptance of PLN appreciation and continuation of this trend, with the main arguments being the strong fundamentals of the Polish economy and the expected inflow of EU funds,
- even if the core market central banks cut rates, it does not mean that the NBP will follow because domestic risks to inflation come from regulated prices,
- assessment of inflation risks skewed to the upside, including an expected economic recovery, geopolitical risks linked to the war in Ukraine and regulated prices,
- less attention to the downside risks, apart from exchange rate appreciation and falling commodity prices.

Bottom line

The NBP governor noted that, irrespective of the decision on energy shields, at the end of the NBP projection horizon (2026) the level of inflation is similar and marks a return to the target. At the same time, we think his conviction that inflation will return to the target in the long term is considerably lower than it was just a few months ago.

Professor Glapiński's assessment of the balance of risks for inflation is clearly tilted towards potentially higher inflation (e.g. higher transport costs, rebound in the economy, proximity to the war front).

The MPC chairman also noted that the situation is clear until the end of June, which could be taken as a suggestion that rates could remain at current levels until mid-year. In July, the NBP will present the new set of macroeconomic forecasts and government should unveil its plan for regulated prices.

We perceive President Glapiński's March conference as maintaining a hawkish bias and focus on upside risks to inflation. The NBP chair dampened market expectations for rate cuts which remain high, even though have moderated somewhat recently.

In our view, NBP rates may remain unchanged until the end of the year. We are still of the opinion that inflation could moderate visibly in 2024 vs. 2023 and see average CPI growth of 4.3% this year vs. 11.4% in 2023. We remain concerned about medium-term upside risks to inflation. These include the high pace of wages growth and its impact on services prices. We also see chances for a significant acceleration in GDP growth in 2025-26, as Poland has 2.5 years to implement the EU Recovery and Resilience funds (RRF), while other countries have had around 6 years to do so. Hence, we assume unchanged rates until the end of 2024.

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