No change in Polish rates and stronger PLN may be a game-changer

Poland's central bank keeps rates on hold and reiterates its uncertainty about the fiscal outlook and regulated prices that may impact future inflation. The MPC welcomed recent PLN appreciation as it facilitates disinflation and is more aligned with economic fundamentals. Policymakers will remain in a 'wait and see' mode until at least March 2024

The Monetary Policy Council's decision to maintain interest rates (the policy rate at 5.75%) comes as no surprise. We await tomorrow's conference by the NBP chairman, Adam Glapiński. On the one hand, recent communication points to the end of the easing cycle, but on the other, the main central banks are about to start monetary easing (Fed, ECB, CNB). In addition, the external inflation picture is improving strongly, and the consensus is shifting towards an earlier return of CPI to target in the euro area and the US or even earlier cuts by the Fed and the European Central Bank.

Minor amendment of the post-meeting press release

In the official written communiqué, the Council assessed that recent appreciation is conducive to lowering inflation and is consistent with economic fundamentals. For many months, the MPC had expressed a wish that such a move in the PLN exchange rate would occur. This suggests that, in the NBP's view, further appreciation of the zloty is no longer welcomed and would not be beneficial to the Polish economy. Policymakers also noted a further fall in core inflation in November and PPI deflation, which, in the Council's view, confirms the extinction of most external supply shocks. The MPC also mentioned a gradual economic recovery.

MPC communication and decisions in the coming months

We wonder which way the MPC's communication will go in the coming months. There is a great deal of uncertainty about whether it will be even more hawkish or, following other banks, neutral or perhaps dovish. Factors that will shape the policy decisions in the coming months mentioned in the press release include the scale of fiscal expansion, the scale and timing of regulated price adjustments and their impact on inflation. Policymakers repeated that future decisions will depend on incoming macroeconomic data.

Rates to remain unchanged in 2024, but new risk factors emerged

In our view, the MPC is likely to refrain from changing the main parameters of monetary policy in 2024, awaiting important administrative decisions for the inflation profile (regulated energy prices, shield measures, VAT on food) and information on the scale of fiscal expansion in 2024. The MPC is likely to make its first serious consideration regarding the level of rates in March on the occasion of the next inflation projection, which should take into account the aforementioned factors.

If our inflation scenario materialises (i.e. in the short term, inflation may surprise on the lower side, especially the core inflation rate, but in the longer term it will still remain above the target), there will be no room for NBP rate cuts at least until the end of 2024.

In our view, the picture of the Polish inflation outlook may change with further PLN firming. We see risks of a stronger zloty and an earlier return of CPI to target, suggesting earlier cuts than we currently assume. At the same time, large inflows of EU funds, foreign direct investment and fiscal expansion are arguments against rate cuts as they may boost economic activity; the balance of risks points to an earlier cut than we assume.

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