National Bank of Poland holds rates unchanged, cuts unlikely

The Monetary Policy Council (MPC) kept interest rates unchanged (reference rate: 5.75%) and the decision was in line with expectations, but the tone of the statement is rather hawkish

The National Bank of Poland in Warsaw

Statement is rather hawkish

The MPC statement presents a V-shape inflation trajectory – a short-term decline in CPI (to 2.5% year-on-year in March, in our view), which will be followed by sharp rise in the second half of the year and the end of 2024 outlook is much more concerning.

We think this indicates that the odds of easing in 2024 are decreasing, or there will be no cuts at all.

The most important changes in the post-meeting statement are following:

- a month ago, the MPC said the inflation outlook in 2H24 is uncertain but now thins CPI may **increase significantly**;
- a sentence about the risk to the CPI from wage increases was added;
- in the summary passage the MPC points out that it aims at a **sustained** return of inflation to

the target.

The Council also reiterated risks for the inflation path in the second half of 2024:

(1) the reinstatement of the VAT rate on food;

(2) increases in energy prices.

At the same time, it noted the weak performance of the economy in the fourth quarter of 2023 and the decline in employment in the corporate sector.

Next decisions and low odds for rate cuts in 2024

The Council will probably wait for the March macroeconomic projection before future decisions. In March, we will also know the preliminary estimate of CPI inflation for January, and we should learn about the Climate Ministry's plans to "unfreeze" energy prices for households.

For now, our estimates point to a further decline in inflation in the coming months (to 2.5% YoY) and a rebound in in the second half of 2024 (5-6%).

So far, our baseline scenario has assumed one symbolic interest rate cut (by 25bp) in May. However, the tone of the MPC's statement seems hawkish, despite the improvement in the inflation outlook, which indicates that the odds of even a small rate cut have fallen sharply.

GDP for 2023 indicates that the recovery in consumption stalled in the fourth quarter, suggesting that the period of declining core inflation may be prolonged. We still believe that high labour cost dynamics and economic recovery will cause core inflation to rebound in 2024-25, but favourable domestic and foreign conditions may have indicated that this moment of core rebound is moving away. Additionally, the stabilisation of food prices in January leads to a decline in CPI to 2.5% YoY in March. Despite these developments, the MPC indicates that inflation "could rise significantly," hence **we assume that the chances of a rate cut are very low**.

In addition, the Council stresses that it is aiming for a "sustainable" return of inflation to the target, which may suggest that policymakers will not react to the expected temporary drop in inflation in the first quarter of 2024 (even to the NBP target in March).

We think the governor may extinguish expectations of rate cuts during Thursday's press conference.

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