Poland's central bank governor maintains ultra-dovish stance

While Poland's central bank has slowed the pace of rate cuts, Governor Adam Glapinski remains very dovish, contrasting with other banks in the Central and Eastern European region

National Bank of Poland office in Gdańsk

Assessment of the economic situation: the downturn is more prolonged

Poland's central bank cut interest rates on Wednesday by 25bp, a smaller move than the 75bp cut seen at the last meeting in September. But in a press conference following the decision on Thursday, the governor maintained his very dovish stance, arguing that the global economy remains depressed, with a shallow recession in Germany. Governor Glapinski admitted that the economy is currently in worse shape than in the NBP's July projection and that the downturn is more prolonged. He reiterated that full-year GDP growth will be close to zero, but a temporary and short-lived recession cannot be completely ruled out.

Governor Glapinski drew attention to the decline in demand pressures. Consumption and exports declined in 2Q23, which limits the ability of companies to raise prices and will promote further disinflation. He also pointed to producer price deflation (PPI).

Inflation outlook: CPI is falling fast and sharply, and high inflation is over

At the beginning of the conference, Governor Glapinski emphasised that inflation is falling sharply and rapidly. From February to September, annual inflation fell by more than half. In the last five months, prices have not been rising (in month-on-month terms) and have even fallen slightly. He reiterated that we have been in a period of moderate inflation since September and that the 'horror of inflation' has passed. In our view, the governor sees the glass as half full and is declaring success in the fight against inflation, even though it is still close to three times the NBP's target.

The NBP governor is firmly convinced that inflation will continue to fall. He has announced that inflation will fall to around 7% in October and will be in the 6-7% range in December. By mid-2024, inflation will be around 5%. A return to target is expected in 2025. We see the short-term inflation outlook similarly to that of Glapinski. However, we are less optimistic than the NBP about the medium-term outlook. Our estimates indicate that disinflation will decelerate in the second half of next year and CPI may stabilise at elevated levels (5-6%). Other central banks are also showing a more cautious approach than the NBP.

Tone of press conference: NBP governor maintains dovish stance but declares gradual policy adjustments

Although the scale of the rate cut in October was noticeably smaller than in September, the governor maintained his very dovish stance and did not change his rhetoric regarding possible further monetary easing. In justifying the decision to cut interest rates, he pointed to a further decline in inflation in September (to 8.2% year-on-year), including lower core inflation, a deceleration in price growth in all the main categories of the inflation basket and prospects for a further decline in the coming quarters. He stated that this was accompanied by low demand and cost pressures at home and abroad and a decline in inflation expectations.

Governor Glapinski reiterated his very dovish opinion from last month that current real interest rates are very restrictive, even though the ex-post real rate is negative at minus 2%. According to the NBP, the economy continues to be strongly affected by the previous monetary tightening, which has led to a reduction in credit growth.

Bottom line

Future MPC decisions should depend on incoming data. The governor declared that further interest rate adjustments should be gradual and that the NBP should not take unexpected steps that could destabilise the zloty's exchange rate. In light of the expected further disinflation, we believe the NBP will continue to ease monetary policy. We project the Council will cut interest rates by 25bp in November, with the reference rate at 5.50% by the end of the year. In the first half of next year, the MPC may continue to gradually cut rates to 4.75%.

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