

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%.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.