

Chairman Glapiński's press conference confirms a bias shift in Poland

During his press conference Monetary Policy Council Chairman Glapiński underlined rising risks to the inflation outlook, particularly given uncertainty over fiscal policy. We read Glapiński's statement as an announcement that the current level of rates will be maintained for a longer time. We expect rates will remain unchanged until the end of 2024



President of the National Bank of Poland, Adam Glapiński

Inflation outlook

Glapiński noted a further decline in headline (by about two-thirds from the February peak) and core inflation. He reiterated that Poland no longer faces high inflation, which in his view was caused by earlier external shocks. According to the National Bank of Poland's projection, inflation will continue to decline, but more slowly than before. The last two months of 2023 should not bring a significant change in inflation. The inflation target should be reached at the end of 2025, so the horizon for inflation to return to the target has not changed significantly from the July projection, despite the 100bp rate cuts. The macroeconomic projection assumes that the VAT rate on food will remain at zero, but the November forecasting round is subject to extremely high uncertainty.

Monetary policy: a slow decline in inflation and high uncertainty ahead

The MPC chairman said that the significant interest rate cuts in September and October resulted from inflation coming in lower than the NBP's earlier expectations. As a result, the Council assessed that loosening monetary policy would not extend the timeframe for inflation to return to target, but would support the economy.

In November, the Council decided to leave interest rates unchanged, as the space for rate cuts had shrunk significantly after the earlier cuts. In addition, uncertainty about the outlook for inflation in the coming quarters has recently increased significantly. The governor pointed to limited information on future fiscal policy and administered prices.

Glapiński stressed that a clearer picture of the inflation outlook will be outlined in the March projection, which will be based on new information on fiscal policy, regulated prices and the impact of these factors on the inflation path.

Conclusions

During the press conference, the NBP president repeatedly emphasised the uncertainty of the inflation outlook, particularly in relation to decisions on regulated prices (electricity and gas), maintaining a zero VAT rate on food and the shape of fiscal policy (how strong the fiscal expansion will be) in 2024.

Glapiński also underlined pro-inflationary factors, i.e. budget sector wage hikes. On the other hand, important statements that were made at press conferences in previous months were missing, e.g. we saw little or no comments on the rate of economic growth, there was a statement that a real rate of -2% or -3% will harm the economy.

We read the President's press conference as an announcement that the current level of rates will be maintained for a longer time. This new approach by the NBP is positive for the zloty, negative for short bonds (which are pricing in too large rate cuts), and positive for long ones (because the chances of CPI returning to target, although not soon, are increasing).

Glapiński noted the high relevance of the NBP's March projection to future Council decisions, suggesting that the MPC may keep rates unchanged in the coming months. He did not indicate whether we now have a break in the monetary easing cycle or a halt to rate changes for a longer period. The NBP president assessed the scenario of possible interest rate hikes as unlikely. Our baseline scenario assumes that NBP rates will remain unchanged until the end of 2024.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

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