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Polish central bank holds rates steady amid neutral statement

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National Bank of Poland governor Adam Glapinski

Decision and statement

As expected, the MPC left interest rates unchanged. In the post-meeting statement, the Council acknowledges that the recovery is taking place, but is slightly less confident about this than in December. It expects a significant fall in headline inflation over the coming months, but a smaller fall in core inflation. The CPI inflation trajectory in the coming months is subject to a number of risks, including the pro-inflationary impact of fiscal easing, regulatory decisions (lifting the energy price freeze) and the uncertain outlook for the economy. At the same time, a strong zloty should have a disinflationary effect.

We assess the tone of the post-meeting statement as balanced and neutral, but slightly more dovish than a month ago. Still, it does not indicate that the MPC is ready for 100bp of rate cuts as the market is pricing in by the end of 2024. The MPC is not concerned about the strengthening of the zloty, noting that it is in line with fundamentals.

Still, of key importance will be Wednesday's press conference by President Adam Glapinski, where we expect a more "technocratic" tone than before.

Our assessment of the situation and the MPC's next decisions

In the last few months, the MPC has moved away from its ultra-loose stance while outside Poland, central bank attitudes have moved in the opposite direction. The easing cycle should soon begin in the US and eurozone, and has already begun in the Czech Republic.

Inflation is falling sharply worldwide, both in core and commodity prices. In Poland, headline inflation may even fall below 3.5% in the short term, but it will rise again in 2Q24 after the partial lifting of the energy price freeze and the reintroduction of VAT on food. Moreover, the high wage ratio makes disinflation less convincing in Poland than in other countries, especially in the medium term.

How will the MPC behave in this situation? Given the expected scale of easing in the US (150bp), eurozone (75bp) and the CEE region (Hungary almost 400bp, Czech Republic 300bp), if the NBP were to keep rates unchanged, this would lead to a significant strengthening of the zloty. We therefore expect a cut of 25-50bp in 2024. The next important meeting will be in March when new projections are released.

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