Polish central bank keeps rates on hold; governor likely to stay hawkish

Poland's CPI continues to surprise on the downside, but mainly due to the unwinding of supply shocks. During the central bank's monthly press conference, the governor is expected to focus on the mid-term inflation risk, which is largely beyond the control of monetary policy. We see unchanged rates until the end of 2024

Adam Glapinski, President of the National Bank of Poland

The April policy decision was hardly surprising as the MPC has remained on autopilot in recent months. The Council made minor changes to its post-meeting statement, i.e. it presents a slightly more upbeat view on economic activity. The MPC notes "an increase in the dynamics of economic activity" while in the previous month, policymakers assessed that "a gradual recovery is taking place". The key summary passage on inflation and future decisions is barely changed.

The financial markets are trying to predict how reliable the MPC's current hawkish stance is, as inflation is falling and its trajectory is more optimistic than had been expected earlier. We think the MPC should stick to its mildly hawkish tone in the coming months.

We expect Governor Adam Glapinski to say tomorrow during the press conference that inflation is low, but should soon rebound on the back of regulatory decisions, fiscal expansion, an economic recovery and buoyant wage growth. The majority of risks will be deemed to be beyond the MPC's control.

We note that most of the downside surprises in recent inflation prints and the rapid decline in recent months are mainly due to the reversal of earlier supply shocks and low commodity inflation as well as slow growth in imported goods prices.

In our view, the inflationary threat posed by the unfreezing of energy prices is exaggerated. The alternative scenario presented by the NBP, and assuming a jump in CPI to 8%, is unrealistic given today's low wholesale electricity and gas prices. In addition, by presenting these projections, the NBP is unnecessarily fuelling the inflation expectations of financial markets. This is particularly visible amongst foreign investors who seem reluctant to return to the Polish debt market for various reasons.

The main problem is high and sticky core inflation. After a year of weak consumption, core inflation is still growing at a rate of 0.5% per month. This is still high and there is no significant improvement in the monthly figures so far. Services inflation, in particular, remains high and will probably remain so due to high wage dynamics that have an inflationary impact.

We see rates remaining unchanged until the end of the year.

Author

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl