National Bank of Poland ends tightening and starts easing cycle

We have correctly recognised the Monetary Policy Council reaction function and signalled possible cuts after the August summer break. The governor's press conference leaves no doubt that the central bank should deliver a cut in September and we see another one in October, totalling about 50-75 basis points in 2023. The easing cycle may resume in 2024

National Bank of Poland Governor Glapinski

Glapiński press conference: tightening ends, easing starts

In our view, Friday's conference by the NBP president leaves no doubt that the bank has verbally started the easing cycle and the first rate cut should be delivered at the September MPC meeting.

President Glapiński once again spread the disinflationary optimism. This optimism was also evident yesterday in the post-meeting statement.

The interpretation of the new CPI projection was focused on 2023-24, when inflation will fall further. In our view, too little attention was paid to medium-term inflation risks.

Forward guidance

The president officially declared the end of the tightening cycle and announced that the next step should be a rate cut. However, two conditions must be met. The first is that CPI inflation falls below 10%, which we expect in August, with data to be published in early September. The second is that inflation continues to fall confidently towards the target. We have a different view on medium-term inflation and less certainty than the NBP, but the assessment presented by the president leaves no doubt that he sees no significant risks.

Professor Glapiński basically left no doubt that there will be a 25bp rate cut in September and added that the next steps will be gradual. In our view, the second cut should take place in October and in total rates should fall by around 50-75bp in 2023. Further monetary easing is more likely to take place in 2024.

CPI prospects and rates outlook

Our short-term inflation forecasts are in line with the NBP projections and are optimistic, but beyond 2024 we see significant inflation risks. Therefore, we believe that bringing inflation down to the 2.5% year-on-year target should be a long-term process.

We can already see that the decline in core inflation in Poland is the slowest in the region in response to the monetary tightening that has taken place. Many central banks believe that in the current period of high uncertainty, the central bank should react to current data, especially the behaviour of core inflation, and that it is falling too slowly in Poland. We also have doubts about the interpretation of the fact that up to 50-60% of inflation in 2022 will be due to rising margins. We believe that the role of monetary policy is, among other things, to 'cool' demand so that companies cannot easily pass on cost shocks to retail prices.

Also, the 24% increase in real wages in recent years, repeatedly mentioned by the NBP president, has side effects, i.e. companies can easily pass higher costs to prices and raise margins. In addition, we note that there will be a very significant increase in the minimum wage in 2024 (20.4% in nominal terms and around 15% in real terms), which means that there will continue to be no demand barrier to price increases. Today, our models show core inflation stabilising at a high level of 5% in 2024-25. In order to permanently reduce inflation in Poland, a paradigm shift in monetary policy is needed, i.e. less consumption and more investment in GDP, which seems unrealistic today.

Authors

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

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

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