

## National Bank of Poland press conference did not sound dovish

The National Bank of Poland (NBP) governor switched from ultra-dovish to neutral and is now more concerned with the medium-term CPI outlook than before. We see marginal easing in 2024, under pressure from a strong zloty and other central banks, but clearly less than priced by the yield curve



Adam Glapiński,  
President of the  
National Bank of  
Poland

### Central bank view on economic growth: sluggish recovery but acceleration ahead

At the monthly press conference, NBP Governor Glapiński presented a positive picture of the economic situation in Poland, especially in comparison with other countries in Europe. He stressed that, although the recovery is slow, a recession has been avoided. According to the NBP, fourth quarter 2023 annual economic growth rate accelerated compared with the third quarter, when GDP grew by 0.5% year-on-year.

Growth should accelerate in 2024, supported by rising real disposable income of households and higher fiscal spending. As a result, consumption is expected to increase. President Glapiński's diagnosis of the economic situation is slightly more optimistic than that emerging from the

communiqué following the January Monetary Policy Council (MPC) meeting, where concerns about a slow economic recovery were more upbeat than earlier.

## Glapiński's view on inflation: A sharp decline in 1Q24 (around the NBP's target), but then a "significant increase" in 2H24

Glapiński expressed satisfaction with the fall in CPI inflation to around 6%, in line with the NBP's earlier expectations.

The president noted that inflation in Poland is lower than in the region (Czech Republic, Hungary, Romania and Slovakia), but comparing the Harmonised Index of Consumer Prices (HICP) among CEE countries is tricky as the scale of anti-inflation shield measures differed country to country. In Poland, the freeze in energy prices and 0% VAT on food lowered headline inflation by c.4.9 percentage points. If we take that into account, Poland's HICP inflation would be higher than in the Czech Republic and potentially even the highest in the region.

According to the NBP, the main factors behind the inflation decline in recent months include: (1) subdued demand pressure (more difficult to raise prices, lower inflation expectations, less general acceptance of price hikes), (2) decline in inflationary pressure from abroad, (3) regulated energy price freeze (electricity, gas, heat) and extension in time of the 0% VAT rate on food and (4) the PLN firming (10 per cent appreciation reduces inflation by about 1pp).

In the NBP's opinion, in the coming months the decline in inflation will be deeper than assumed in the central bank's November projection and in the first quarter it may approach the inflation target (2.5%, +/- percentage points), mainly due to the extension of the inflation shield on energy and the zero VAT rate on food.

Glapiński stressed that the outlook for the second half of the year is uncertain and that inflation could temporarily rise "sharply" (to around 6-8% YoY) in December 2024. The rise in inflation is due to three factors. First, the restoration of the VAT rate to 5% should add around 0.9pp to inflation. Second, energy prices are expected to rise. A full unfreezing of electricity, gas and heating prices could add around 4 percentage points to inflation. Thirdly, an expansionary fiscal policy (in particular a rise in public sector wages) could lead to higher than previously expected demand pressures, adding around 0.1pp to inflation in 2024 and around 0.4pp in 2025.

According to Governor Glapiński, the MPC should now focus on core inflation, which better reflects the medium-term trend in inflation. Core inflation should continue its decline and may favour a 'permanent' decline in inflation. Despite inflation volatility in 2024 (temporary decline to the NBP's target in the first quarter and then rise), a sustained decline in inflation to the target is expected only at the end of 2025.

The inflation profile outlined by President Glapiński is close to our forecasts.

## Press conference message and conclusions

The message from the NBP Governor's press conference is similar to that of a month ago, i.e. a reluctance to cut interest rates. Glapiński pointed out that inflation has fallen and will reach the target in the first quarter, but will then rise sharply. However, he stated that rates will remain on hold until March and the jump in inflation in the second half of 2024 suggests a flat profile ("after that, inflation will certainly be higher, whether it will be enough to raise rates, I rather doubt there

will be any hikes, rates are still high in Poland").

We reiterate our conclusion drawn from the MPC statement yesterday: the rhetoric of the President and the MPC does not point to a 100bp cut by the end of 2024 and another 75bp in 2025, which the market is pricing in.

We expect a small NBP cut later this year, as the NBP and PLN will not resist pressure from other central banks to cut by 75-100bp in the eurozone and the US, and 300-400bp in the Czech Republic and Hungary.

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