

## CEE Watch

## Diverging central banks

**CNB's dovish decision vs NBP's hawkish guidance**

A double surprise for the market on Thursday (7th Feb) with the CNB cutting more than expected and releasing dovish staff projections, and the NBP guiding for no rate cuts this year. These events are largely in line with our expectations for a 50bp cut by the CNB to 6.25% in February and for NBP rates to stay unchanged at 5.75% in 2024 (see [CEE Trip notes](#)). The CNB Board's cautious guidance and concerns about the CZK depreciation also leave us comfortable with a YE2024 rate at 4.0%, but a weakening macro backdrop means downside risks. Meanwhile, the NBP does not appear to have any major concerns about a strong currency. This hawkish stance supports our longer-term positive view on the PLN, which should also benefit from inflows from equity portfolio investments and EU funds.

**CNB: still high caution on easing path**

The CNB's decision on Thursday was taken as outright dovish by the market, but the Friday conference dialled back some of the dovishness. This may help consolidate the CZK and the rates markets in the near term but will likely not change consensus' bearish CZK and receiving rates bias, with more conviction in the market for the latter.

The new staff projections show interest rates falling to 3% by YE2024, and further to sub-neutral levels of around 2.5% by YE2025, which are -41bp and -52bp vs November forecasts, respectively. This is mostly driven by a weaker economy vs the November expectations, as well as a more subdued foreign environment. But the two alternative scenarios, which are usually motivated by the Board's feedback, focus on upside risks. In the case of elevated CPI expectations, interest rates are seen ending 2024 at c.4.0%. In the case of evenly distributed interest rate cuts of 50bp, the YE2024 CPI is seen c.0.5pp below the baseline of 2.7%. These results justify the Board's cautious cutting bias.

Policy makers continue to envisage that the rate path will be higher than the forecast, as we think their bias is for CPI to undershoot rather than overshoot the 2% target. CNB Board member Kubicek suggests two more hawkish factors for the Board's thinking. (1) Neutral rates may be higher than the CNB's long-held belief of 3% nominal. (2) If the CZK weakness is persistent vs the CNB's assumption of slight appreciation, the Board may slow the pace of rate cuts, or even pause. We think that the exchange rate will be more important for the decision when rates are, say, sub-5%, as until then monetary policy is still very restrictive. For now, we think the CNB will continue with steady 50bp steps.

**NBP: fundamental and political reasons to be hawkish**

In the NBP's post-decision press conference on Thursday, Governor Glapinski saw no reason to change rates this year, and for the first time he advocated for positive real rates. He also supports a strong PLN as a channel to help fight inflation. This bias is in line with our post-trip takeaways that there are fundamental and political reasons for the NBP to stay on hold at 5.75% this year, against steep rate cut expectations in the markets.

*(continued below)*

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## Abbreviations

CNB: Czech National Bank

NBP: National Bank of Poland

CZK: Czech Koruna

PLN: Polish zloty

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Governor Glapinski notes that while headline inflation will fall to the target of 2.5% in the coming months, the uncertainty in 2H is very high, with YE2024 inflation seen in a wide range of 3%-8% (due to the unclear regulatory measures on food and energy). He acknowledges that the real interest rate is now high in Poland and getting more restrictive, but then states that “this is the way it should be”. He also reiterates the NBP’s increasing attention to core inflation, which has been falling but at a slower pace than headline CPI.

The hawkish turn may also relate to the increasing political tensions between PM Tusk and the PiS camp, which Glapinski is close to. It is also likely that Glapinski remains in defensive mode amid the threat by Tusk to bring him to the State Tribunal. In this light, it might be more prudent for him to focus on ensuring the inflation target is achieved – this would likely be the best strategy to guard against any future investigation into policy making.

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