

Poland Watch

Vague NBP leaves market guessing

Rates on hold as expected but more vague guidance vs Feb

By keeping rates on hold at 5.75% as expected on Wed, the NBP did not step up its Feb hawkishness, as Governor Glapinski in the Thu press conference sounded less specific on the policy outlook in 2H 2024. Still, the overall takeaway is that rates will probably be stable this year, and the next move is more likely to be a cut. We think both Glapinski and the government would want to avoid triggering a major escalation in tension. The PLN should benefit from a relatively more hawkish NBP vs global central banks.

Possibility of rate hike rising?

The market may be anxious about the risk of a rate hike given the MPC's view on risks to CPI in 2H 2024 and longer term, in relation to the recent wage increases, as highlighted in the MPC statement. The central bank's new projections have average CPI at 3.6% in 2024 (-1pp vs previous forecasts), 3.8% in 2025 (+0.1pp vs previously) and 2.9% in 2026 (new). The downward revision in 2024 inflation is likely explained partly by faster disinflation in recent months, but mostly by the removal of energy price hikes assumed in November forecasts. The NBP also does not incorporate a return of the 5% VAT on basic food in its projections either, which should add c.1pp to headline CPI.

The MPC thus sees a 43% probability that inflation will be above the baseline in 2024, adding there is "substantial uncertainty" related to fiscal/regulatory price developments, as well as the pace of economic recovery and labour market conditions. These new assumptions appear rather incongruous to us, given clear signals from the government that these anti-inflation measures will be phased out soon (likely from July in our view).

Not really in the current macro

The set-up of the forecasts/statement may hint that Governor Glapinski is creating some room for manoeuvring rates in case he needs hikes to defend against the government's plan to put him through the State Tribunal process. But we see rate hikes as unlikely based on the current macro backdrop. A non-macro driven decision to hike could risk a major stand-off with the government, which we think Glapinski would want to avoid.

Other than risks to 2H 2024 CPI and the mention of wage risks, the MPC statement generally illustrates a net dovish assessment of the macro backdrop. The NBP notes relatively low GDP growth in 4Q and does not sound overly optimistic on activity in 1Q. On CPI, it sees disinflation in all major basket components, adding that the deeper fall in PPI and low economic activity are conducive to a decline in inflation. In the end, Governor Glapinski did say inflation should come down to the target by Q1 2026 regardless of the government's or regulator's decisions.

But less committed Glapinski keeps market in uncertainty

During the press conference, Governor Glapinski refrained from specific guidance on rates this time vs quite specific comments in February, when he said he did not expect cuts, or an MPC majority for rate hikes either this year. He is now only committing to stable rates until June, adding that the outlook after that depends on how anti-inflation measures and other factors evolve (likely to be assessed in the July Inflation Report).

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Abbreviations

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MPC: Monetary Policy Council

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