

Poland Watch: NBP Governor favours no easing at all in 2024

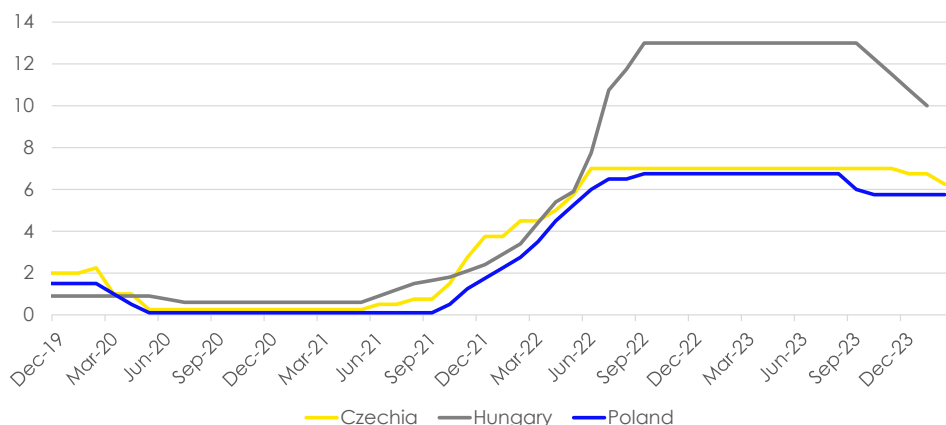
Despite no rate change, the MPC decision this week did bring some surprises including the Governor's view that rates might remain unchanged this year. However, we still await the key meeting in March and leave our forecast unchanged: minor 50bp cuts in total in H2.

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Polish key interest rate still the lowest in CE3 but not for long



Key interest rates (%)

Source: LSEG, RBI/Raiffeisen Research

The key rate in Poland has been left this week at 5.75% once again after a short but dynamic easing in September and October last year, which brought the rate 100bp lower from the peak of 6.75%.

The decision was fully in line with expectations as everyone, including the MPC, seems to be waiting for new information, which will be available at the March meeting — new NBP forecasts, more data on the latest inflation as well as most likely more details about the energy prices' changes from H2'24 when the current price freezing is set to expire. For now, we know that the government does not plan to fully unfreeze the prices, which (according to NBP) could lead the CPI even towards 8% yoy. Still, some measures are planned to smooth the reversal and should be announced within the next weeks. While energy prices alone are beyond the scope of monetary policy transmission, the Governor underlines that the MPC must react to consequences related to those price changes. Thus, the current uncertainty about the regulations is relevant for the Council.

Overall, the outcome of this week's MPC meeting is hawkish. First signs came already from the MPC statement on Wednesday, when risks to inflation (incl. the awaited large spike later in 2024) were underlined, while little was mentioned about recent disappointing GDP results (2023 GDP growth merely at 0.2% yoy with disappointing consumption results in

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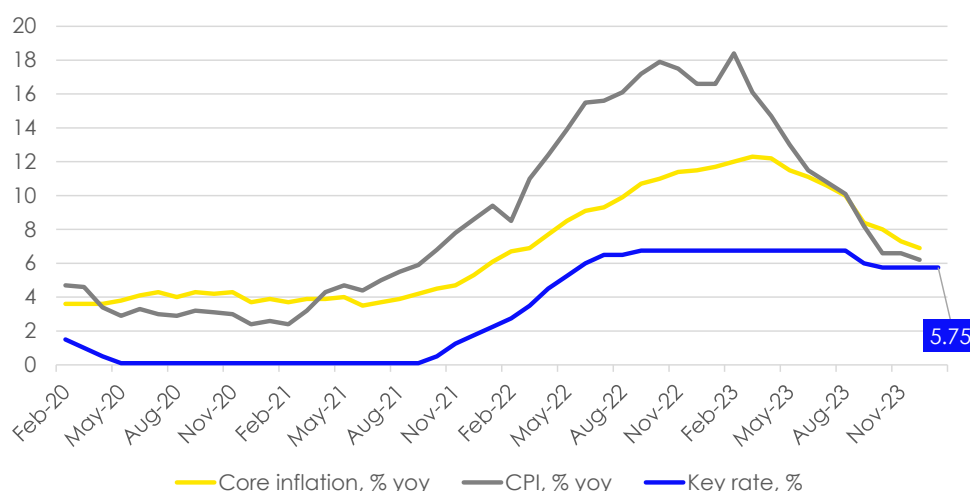
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Q4). Here also more details about Q4 in particular will be available in March and will allow for a better assessment of the state of the economy in late 2023. In Thursday's conference with the Governor, many disinflationary factors were mentioned like the fact that the conditions of the economy are not pro-inflationary, the decline in inflation expectations, or the impact of the strong PLN. However, the Governor also stated that in his view rates could be left unchanged for the full 2024, which, in the end, aligned with the hawkish change in the MPC statement.

This shift comes as CPI is set to decrease significantly in Q1. We expect that **next week's January reading will show a decline from 6.2% yoy in December to 4%**. Similarly to the Governor's comments, we also expect CPI to approach the mid-target of 2.5% around March but only to increase afterward and consolidate closer to 4-5% in the rest of the year. However, given the expected decline of CPI in the near term, the MPC needed to underline it would not lead to any reaction in the form of rate cuts. Such a declaration supported the PLN and was also visible in market expectations for rates, which at the beginning of February priced almost 100bp cuts and now price in just 50bp cuts this year. Interestingly, the Governor's conference took place along with news from Czechia, where the CNB accelerated cuts to 50bp, showing a widening gap in monetary policy stance in the region (the MNB is also expected to accelerate cuts).

Finally, despite the Governor's suggestion of no rate change in 2024, we keep our forecast of 50bp cuts in total from Q3 at the earliest. We await next month's meeting for more information to reevaluate this estimate. Meanwhile, the easing in the region, starting from Q2 probably also in the euro area and the US, together with progressing, but gradual, disinflation (in mom terms), nevertheless, prompt us to expect some cuts in the Polish rates later this year.

CPI and core inflation expected soon to fall below the key rate



Source: LSEG, RBI/Raiffeisen Research

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