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Economic Comment

Short and sweet

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The conference of NBP governor Adam Glapinski after the December MPC meeting was very different from his speeches in the previous months: it was much shorter (less than 30 minutes) and focused on merits, i.e. monetary policy and the economic outlook. The NBP governor declared his willingness to cooperate with the new government, regardless of who will lead it. The actual cooperation may, in our view, depend on whether or not the new majority parliamentary coalition actually decide to attempt to put Adam Glapiński before the State Tribunal, as has been suggested by some politicians in recent weeks.

The NBP President stressed that recent macroeconomic data had not changed the outlook for monetary policy. He noted the weak economic situation in the euro area and the beginning of an economic rebound in Poland, which is, however, moderate enough that it should not prevent inflation from falling further. At the same time, he pointed out that the inflation decline will be slower than it was in the previous months - in line with the central bank's earlier projections. A further inflation reduction will be, in his view, supported by still negative output gap and a cooling of the credit market thanks to the interest rate hikes implemented earlier.

Glapiński reiterated the previous month's claim that the uncertainty about the next government's policy is an argument for the MPC to hold rates unchanged, and said that further MPC decisions will depend on incoming data, new information on the government's plans and the shape of the March NBP projection. He stressed that government decisions regarding VAT on food, electricity and gas prices will be particularly important.

At this stage, obviously, we also do not know the official plans of the next government (which has not yet been appointed), but based on press information, it seems likely that the zero VAT on food will not be maintained, electricity and gas prices will be frozen only until the end of June, and, in addition, the government's plans will include a 20% increase in salaries in the budget sector and teachers' salaries by 30%. In our view, the effect of these changes will be, on the one hand, a drop in CPI to around 4% at the end of 1Q / early 2Q (i.e. slightly lower than assumed in the November NBP projection) and, on the other hand, an increase in the medium-term path of CPI in the March projection and, as a result, a somewhat later return to the official target. We believe that this will make the central bank not in a hurry to cut interest rates. We assume that the reference rate will remain unchanged in the first three quarters of 2024 and then two cuts of 25bp each will take place in 4Q24.

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