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Economic Comment

No room for rate cuts

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At today's conference NBP governor Adam Glapinski has repeated the message from a month ago: the decline of CPI inflation to the 1.5-3.5% band around the target is a success of the central bank but by no means allows the MPC to think about rate cuts. He stressed several times that there is no discussion in the Council on easing monetary policy and he does not see any arguments to support lower rates. On the other hand there are strong arguments for cautious, wait-and-see approach. The first one is the uncertainty related to government decisions on energy prices which could lead to end-2024 inflation somewhere between 3.9% and 7.5% - so above the target band in any case - depending on the government actions. The second one is the already observed quick rise of real wages and demand-driven economic rebound to happen this year. The third one is relatively loose fiscal policy, which requires tight monetary policy in optimal mix. The fourth could be geopolitical concerns. At the same time Glapinski mentioned no need for rate hikes. Asked about interest rates outlook beyond 2024, NBP governor said that in 2-3 months there should already be clarity about the government plans regarding energy prices and fiscal policy and, after assessment on impact on inflation, it may be possible to formulate some views about 2025. This fits our scenario of no rate changes until the middle of next year. As a result FRA rates increased and swap curve flattened.

Moreover, NBP Governor praised having one's own currency and his tone did not suggest favourable approach to fast euro adoption.

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