Interest rates unchanged in Poland but the press release sounds less dovish

As widely expected, the Monetary Policy Council left rates unchanged. The press release sounds less dovish regarding the inflation outlook and rate cuts. It's wait and see until March. We are awaiting Glapiński's press conference and his reaction to significant changes in the external environment and weak domestic economic data

The MPC's decision to keep interest rates unchanged (main rate at 5.75%) was in line with our and market expectations. The post-meeting statement is quite standard and does not address the key question of the impact of significant changes in the external environment (ECB's more dovish approach in response to weak eurozone growth and Trump's protectionist policy) and surprises in domestic data for the third quarter (weak consumption rebound after the floods, deepening private investments contraction, extension of energy price freeze, lower inflation expectations) on the Council's stance. Perhaps we will learn more during Thursday's press conference by National Bank of Poland President Glapiński.

Main changes in the MPC post-meeting statement

The statement updates the latest data on the Polish economy, including weak GDP data for the third quarter, slightly better industrial production and retail sales data for October, and a decline in construction and assembly production. The statement highlights the significant contribution of regulated prices to the CPI increase and elevated core inflation due to high service price dynamics.

The overall message from the statement is similar to last month, but some slight changes can be noticed. Last month, the MPC sounded more dovish regarding the future outlook for inflation and rate cuts. In December's press release there is a note that the probable unfreezing of energy prices in the second half of 2025 is a risk factor and may affect inflation expectations.

In our opinion, this note may indicate a slight tightening of the Council's stance and a very cautious approach to regulated prices. Indeed, the government's decision to freeze electricity prices is valid until the end of September 2025, but government representatives have declared that prices should not be raised after the unfreezing period (We wrote about this here: https://think.ing.com/articles/poland-retail-electricity-energy-freeze/) .

Additionally, the MPC ignored changes in external conditions and the overall message of domestic data suggesting an "economic freeze" in the second half of 2024. However, we are waiting for tomorrow's press conference by the NBP President as it will set the tone for communication.

Current stance of the NBP President and the majority in the MPC

The Governor's statements at the November press conference and the majority of Council members in recent weeks suggested a rather easing-averse bias in the coming months but a more dovish approach in the longer term. This meant that discussions on rate cuts would only begin in March. The March inflation projection will be very important in this context. The President also signalled that the MPC is waiting for the peak of inflation and at least its stabilisation even at a high level. Decisions on cuts before March 2025, when a local peak of inflation is expected, would be a big surprise for the market but also a communication problem for the MPC.

A more disinflationary external and internal context

Meanwhile, in recent weeks, events in the external environment following Donald Trump's victory, including continued economic weakness in the eurozone, indicate possible deeper ECB rate cuts (target rate around 1.75%). Additionally, domestic data has "diverged," strengthening arguments for lower interest rates due to a weak consumption rebound after the floods (only 0.3% year-on-year growth in the third quarter, while the NBP assumed 2.8% YoY growth in the November projection), poor private investments, lower inflation expectations, and the above-mentioned energy price freeze. The government's intervention regarding energy prices lowers the forecasted average inflation in 2025 by over 1 percentage point.

In this context, keeping interest rates unchanged effectively means a gradual increase in the restrictiveness of the NBP's monetary policy. The economy is stagnant on the side of both businesses and households.

Our assessment of the NBP rate path and risks

In the baseline scenario, we expect the first cut by 25 basis points in the second quarter of 2025 and a total of 100 basis points throughout 2025. Due to the unclear reaction function of the MPC, we do not rule out the risk of an earlier or deeper cut in the first step of the new easing cycle.

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