

NBP preview: Expect a pause before a cycle of cuts in Poland

We're expecting a pause in Polish rate cuts this month, after a 50bp reduction in May. It's likely to be just a pause before an easing cycle resumes. The inflation outlook is improving, and CPI could hit the NBP's target in July. We see room for 75bp more cuts this year, but markets will be sensitive to any change in the Bank's willingness to ease



National Bank of Poland governor Adam Glapinski

Rates adjusted downwards in May but no cycle signalled at that point

In May, Polish policymakers slashed policy rates by 50 basis points, taking the reference rate down to 5.25%, after keeping rates high and maintaining a hawkish tone in the first few months of this year. The main reason for the cut was a better inflation outlook than the NBP was projecting in March. The annual update of the CPI basket reduced headline inflation by 0.4 percentage points, wages started moderating after three consecutive years of double-digit growth, and core inflation also started to abate. The March NBP staff projection was based on pre-revision data and envisaged persistently high inflation, with core inflation running around 4% by the end of 2025.

With inflation running clearly below the path projected in March, the MPC declared an

“adjustment” in rates rather than the beginning of a monetary policy easing cycle. Governor Adam Glapiński was quite clear that investors should not expect another cut in July as the rate setters need to gather more information before making further moves. What is more, he declared there'd be smaller steps (25bps) in a cycle. Therefore, a pause in June is the baseline scenario and we expect the NBP policy rate to remain unchanged. However, some less important adjustments, such as a cut in the interest on the obligatory reserves, are likely.

Expect a cut initiating a cycle in July

Even though the MPC is unlikely to deliver another rate cut this week, the inflationary outlook keeps improving. Flash May CPI at 4.1% YoY was below market consensus, and available data suggests that core inflation excluding food and energy prices moderated to some 3.3% YoY, continuing a downward trend. On top of that, at the end of May, the Energy Regulatory Office (URE) announced a new level of regulated gas prices for households that will reduce the average gas bill by around 10% from July, subtracting some 0.2-0.3 percentage points from annual CPI inflation.

The new inflationary projection released in July will be based on a lower starting point, improved core inflation and assumptions taking into account the most up-to-date news on regulated prices. The new projection should deliver a lower CPI path ahead. Our baseline scenario is that the MPC will cut rates by 25bps in July and deliver two more cuts before the end of this year (September and November).

What's more, our forecasts indicate that in July, CPI is likely to be around the NBP target of 2.5%. By the end of 2025, the MPC may deliver another 75bp in cuts (depending on the scale of the move in July), bringing the main policy rate down to 4.50% at the end of this year.

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