

## National Bank of Poland keeps interest rates and outlook unchanged

As expected, the MPC left interest rates unchanged (the main NBP rate is still 5.75%). The post-meeting communiqué also contains no new items in the monetary policy outlook section. The Council believes that the current level of rates is conducive to achieving the inflation target in the medium term, and that further decisions will be data-dependent



NBP Governor Adam Glapiński

The policy statement noted the persistence of elevated inflation in core markets. Referring to the outlook for domestic inflation in 2H24, the MPC assessed that “inflation will rise” while in May it said that “it could rise significantly.” This reflects - on the one hand - somewhat less uncertainty following the presentation of the energy voucher bill, and, on the other hand, a smaller expected scale of price increases in the second half of the year (the maximum price of electricity and the suspension of the power capacity fee in 2H24).

Inflation is once again on an upward trend, and the abandonment of the retail electricity price freeze in 2H24 will contribute to a further increase in the headline inflation rate to around 5% year-on-year by the end of the year. Moreover, both our forecasts and the NBP's projection point to

persistently high core inflation.

The NBP is also increasingly concerned about the high rate of wage growth, although as recently as the autumn of 2023 it did not see this as a risk to inflation and decided to cut interest rates. We expect the topics of rising inflation, high core inflation, risks to rising wages and service prices to dominate the speeches of President Adam Glapiński tomorrow and in the following months.

During his May speech, Glapiński made it quite clear that interest rates would most likely remain unchanged until the end of 2024. Subsequent statements by some Council members suggested that market expectations about the scale of monetary easing were too deep.

In our view, the Council will not change interest rates in 2024, with reductions not taking place until 2025, and this may only occur after a reversal of the upward trend in inflation, the local peak of which we expect in 1Q25 (including another hike in energy prices, reinstatement of the capacity power fee). We assume that NBP rates will be cut by a total of 75bp next year.

## Author

### Adam Antoniuk

Senior Economist, Poland

[adam.antoniuk@ing.pl](mailto:adam.antoniuk@ing.pl)

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