Interest rates unchanged in Poland with cuts expected in 2025

The Monetary Policy Council did not change interest rates today and the post-meeting statement does not suggest an easing of its policy stance. We expect interest rates to be cut by a total of 100bp in 2025 following the peak in inflation and easing policies from global central banks

As expected by all analysts surveyed, the MPC left interest rates unchanged today. Thus, from October 2023, the reference rate is 5.75%. The MPC's post-meeting statement does not contain any significant changes compared to July and does not suggest a softening of the policy stance, which has been noticeable in recent statements by Council members and the National Bank of Poland President himself after the non-decisive meeting in August.

Little change in the MPC press release

The MPC's post-meeting statement mainly updates the description of the global and local context. It mentions low GDP growth in Germany and the relatively strong performance of the US economy, although it notes a deterioration in the labour market there. It notes low cost pressures, also due to the weakening economy.

On the domestic side, the release mentions an acceleration in CPI inflation in recent months due to the increase in energy prices since July and slightly higher food prices in August on a year-on-year basis. The Council noted a stabilisation of core inflation in recent months after an earlier decline.

The release maintained the statement that wage growth, including increases in public sector wages, are among the inflation drivers. There was no change in the statement that over the medium term inflation will be influenced by fiscal and regulatory policy, the pace of the economic recovery and the labour market situation.

We see rate cuts in 2025 on the back of global trends and expected disinflation in Poland

We expect interest rates to remain unchanged until the end of 2024, with the first cut taking place in the second quarter of 2025, following the anticipated inflation peak in first quarter 2025. Rates could be cut by 100bp in total next year.

The government is planning measures that will prevent a strong increase in energy prices from the beginning of 2025, which means that inflation next year should be lower than in the scenario presented in the NBP's July projection, which assumed a further significant increase in energy prices.

The reduction in the degree of restrictiveness of the NBP's monetary policy in 2025 will be justified by, inter alia, lower average inflation in 2025 than assumed in the last projection and the convergence of inflation towards the target from mid-2025, combined with moderate GDP dynamics and single-digit growth in nominal wages next year. Also, rate cuts by the Fed (expected first cut in the cycle in two weeks' time) and the ECB (expected second cut in the cycle in a week's time), will prompt the NBP to cut rates in 2025.

The yield curve is pricing in around 150bp of cuts by the end of 2025. We expect the easing cycle to start in second quarter 2025 and NBP rate cuts of 100bp in total in 2025.

More details expected at the press conference tomorrow

During President Glapiński's press conference on Thursday, we should learn more details behind today's Council decision. We expect the NBP President to soften his rhetoric compared to his hawkish speech in July, in a tone similar to his public statements in August. Nevertheless, we assume that he will highlight the role of domestic factors hindering the NBP's monetary easing, such as the uncertainty of regulatory policy on electricity prices from January 2025 or the expansionary fiscal policy in the draft budget for next year.

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