

## Rates remain unchanged in Poland as we await tomorrow's press conference

The National Bank of Poland did not change rates nor its post-meeting press release. The hawkish tone remains firmly in place. We are looking forward to tomorrow's press conference by the NBP governor but do not expect a shift in his stance



### Rates and tone unchanged and virtually no changes in the press release

Today's decision by the Monetary Policy Council to keep interest rates unchanged was widely expected. The benchmark rate has remained at 5.75% since October 2023. We view the tone of the official statement following the MPC meeting as hawkish, similar to the previous one and the last two speeches by NBP President Głapiński. Głapiński is likely to maintain his hawkish tone at tomorrow's press conference. However, after the January presser, the NBP president's hawkish message was not fully reflected in market pricing. Financial markets do not share this approach and are pricing in 90bp of cuts by the end of 2025 and 150bp by the end of 2026.

There are virtually no changes in the post-meeting press release, apart from updates on key economic data from abroad and domestically. The only new element is a statement that

uncertainty in the major economies is linked to possible changes in global trade policy. This is justified in light of the turmoil related to Trump's tariffs in recent days.

## Little new data: GDP in 2024 and strong zloty

It has been less than three weeks since the Council's January meeting, so it was difficult to expect significant changes. In the absence of the publication of the January inflation estimate, the main information the Council received since the previous meeting was the preliminary GDP estimate of 2.9% in 2024, as well as the monthly data for December. These show that the recovery resumed in the economy in fourth quarter 2024.

On the other hand, the restrictiveness of monetary policy and the outlook for inflation improved by the recent strengthening of the zloty and the lowest EUR/PLN exchange rate since 2018, despite strong fluctuations in the main currency pairs. Should the strengthening of the zloty prove to be sustained, this could accelerate the timing of inflation's return to target.

January's NBP Quick Monitoring report suggests that exporters are flexibly adjusting the break-even exchange rate in the wake of the strengthening of the zloty (in 4Q24 the export profitability threshold for EUR/PLN was as low as 4.01), but another wave of appreciation was realised in the first weeks of 2025. Still, the percentage of exports that lose profitability at the current rate is not high (around 3% of export turnover and 14% in terms of the number of exporters), but both percentages have returned to 2010-13 levels, still well below the pre-Lehman tops. The growing interest rate disparity between Poland and the euro area is a strong support for the zloty. This is due to both the central banks' decisions to date (a total of five ECB cuts of 125bp since the end of the tightening cycle, 100bp in Poland) and the expected ones (the market is pricing in three more cuts in the eurozone by July this year, and one in Poland at the same time).

## We still see NBP rate cuts of 50-100bp in 2025

Recent statements by Council representatives (Kotecki: rates may start to be cut from July, and there is room for cumulative cuts of 50-100bp by the end of 2025; Duda: there may be room for small rate cuts towards the end of 2025; Janczyk: a rate cut in 2025 is still possible, and the magnitude we may argue for is still 50-100bp in the second half of 2025) virtually rule out the possibility of a change in monetary policy parameters over the next few months.

We expect the NBP governor to stick to his hawkish bias tomorrow, as we believe his overly pessimistic view on regulated prices and headline CPI for fourth quarter 2025 should also remain unchanged. The NBP's tolerance for a strong zloty is high.

However, we expect the domestic and foreign context to allow for a discussion of rate cuts in mid-year. We still assume a 50-100bp cut in 2025. Our inflation forecasts for fourth quarter 2025, when the energy shields will be lifted, are significantly lower than those presented by the NBP governor at the previous meeting. In addition, the delivered inflation in 4Q24, stronger PLN, as well as possible trade wars – through oversupply in Europe as a result of reduced exports from China and Europe to the US – mean that the chances of a lower inflation trajectory in 2025 are increasing.

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