

Sharp dovish pivot by the National Bank of Poland governor opens the door for a rate cut in May

The communication by the National Bank of Poland (NBP) President suggests a rate cut is possible as early as May. Two mini easing cycles are expected in 2025 and 2026. The chances of rate cuts below the neutral 4.25% level in 2026, which we previously expected, have increased



National Bank of Poland Governor Glapiński turned sharply dovish during the press conference and we could see a rate cut in May

Yesterday's statement signalled a dovish pivot

Yesterday's statement of the Monetary Policy Council (MPC) had clear 'dovish' accents and signalled that the dovish pivot of the governor was coming. Today, the NBP governor admitted that conditions have changed (due to a revision of the inflation basket, lower core inflation, reduction in wage dynamics, and weakening economic conditions), and most of the Monetary Policy Council has shifted to a dovish stance. The governor also said rate cuts are getting closer, possibly as early as May. The NBP governor himself is also ready to submit a rate cut proposal as early as next month, if the data confirms a decrease in inflationary pressure, as shown by the latest data for February.

Weaker economic growth prospects

The NBP governor admitted that February data on wages, industrial production, and retail sales indicate lower economic growth than previously forecasted. Glapiński still sees economic recovery as one of the major three pro-inflationary factors, alongside wage growth and loose fiscal policy. The NBP governor emphasised that expansionary fiscal policy does not support reducing inflation pressures, with the 2024 deficit (6.6% of GDP) surprisingly high. On the other hand, the government has announced fiscal consolidation in the medium term, and a large share of spending is devoted to defense.

Significant downward revision of inflation forecast

At the very beginning of the press conference, Governor Glapiński emphasised that the main factor behind the modification of the MPC's stance is the change in the inflation projection. This is primarily due to the revision of the basket of goods and services used by the Central Statistical Office. Although inflation is still described as "high" by Glapiński, according to the latest NBP forecasts, it will be significantly lower than presented in the March projection.

The last projection was presented just three weeks ago. Currently, the NBP expects CPI inflation to be 4.2% year-on-year at the end of 2025 (with the rise of electricity prices in the fourth quarter assumed), compared to the previously expected 4.8% YoY. Moreover, as Glapiński rightly noted, the government is discussing the possibility of continuing the freeze on energy prices (at the current or lower level) beyond the third quarter. The realisation of such a scenario would mean even lower CPI inflation at the end of 2025 (according to our forecasts, even 2.9% YoY in December), increasing the MPC's comfort for rate cuts.

Interest rate path according to the NBP President and market reaction

The NBP governor's comments clearly suggested the possibility of imminent rate cuts, as Glapiński clearly stated that "there may be room for rate cuts in the near future". We interpret this as a signal that rate cuts could occur as early as the next Council meeting in May. In our opinion, the importance of the set of domestic macroeconomic data published in April has increased. If they are unequivocal for the rate-cut scenario (e.g., lower CPI inflation or subdued wage growth), they will seal the rate-cut scenario.

The open question remains whether this will be a restart of the monetary easing cycle or an adjustment, as Glapiński pointed out today, similar to the move in September and October 2023. According to today's message from Glapiński, a motion "will definitely appear" in May. Whether it will gain majority support in the Council is, in our opinion, very likely.

The financial market's reaction was a deepening of cuts expectations both in terms of timing and scale of cuts. The T-bond yield curve currently prices the scale of cuts to be around 225bp (i.e., 50bp more than yesterday after the dovish Council statement). The NBP President himself, "mapping out" possible cuts, indicated that in his opinion, two moves of 50bp each are possible in 2025.

He also said the target rate is close to 3.50%. Consequently, domestic bonds gained value along the entire curve today (especially as they found support in the movements of base markets after Trump's tariff decisions). The zloty, on the other hand, depreciated. During the NBP President's conference, the EUR/PLN exchange rate rose from 4.18 to 4.24, the highest level since February.

Our view on NBP interest rate path

In our opinion, the NBP President joined other MPC members and within a few weeks changed his stance to decidedly dovish from strongly hawkish. There is a sharp easing of the MPC's stance after a sharp improvement in inflation prospects. We have little doubt that the cut will be in May, probably by 50bp, with a total of at least 100bp in 2025.

The governor spoke vaguely about further steps. Once, he said there should be no cycle, and then that the target rate is 3.5% in 2026. In our opinion, we can perhaps expect two mini cycles in 2025 and 2026. So far, we assumed that the target rate is 4.25% (100bp in 2025 and 50bp in 2026), so that the cuts end at the neutral rate during an economic recovery.

But with such a dovish stance of the MPC, the chances of deeper cuts than to the 4.25% level have increased. This is because today's monetary policy is the most restrictive in 15 years, considering real rates and the real exchange rate. The zloty (in real terms) is the strongest since 2008, i.e., since before the 2008 Global Financial Crisis. Such a large appreciation of the exchange rate in the last year may require lower rates than the neutral level, especially if the PLN does not lose despite easing (e.g., it may find support from the rising €/US\$ or potential return of capital from the US to Europe and CEE).

What could push the Council to cut rates below 4.25% is weaker GDP growth in the Trump tariff scenario, leading to lower inflation in the eurozone (oversupply due to Trump's tariffs), or even lower inflation than our forecasts, which were already below the consensus. These uncertainties are the reason why the MPC may prefer to adjust rates in 2025 and wait for a clearer picture in 2026. In our view, the odds of cuts in 2026 deeper than the 50bp we assumed (so below 4.25%) have increased.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

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