

The National Bank of Poland governor sees no scope for interest rate cuts in 2025 but his tone was softer

Poland's rates remained unchanged, the press release also unchanged, as was the governor's rhetoric hawkish – although it was slightly softer than last month



National Bank of Poland Governor Glapiński reiterated rates are likely to remain on hold this year but his tone was less hawkish

We don't know what it was due to, but the National Bank of Poland Governor Glapiński softened his tone slightly at the February press conference. His stance is still hawkish, as he said, "There is no indication for cuts in 2025". However, in January he spoke of cuts maybe only in 2026, today he stated "we do not prejudge what decisions will be in the next quarters", "the time will come that rates will be cut". He even stated "like a rainbow almost everyone is looking out for the moment of a cut". He acknowledged that there are views within the MPC in favour of cuts in 2025, but for now no one is making a proposal.

The NBP Governor reiterated that the elevated inflation in 2025 is the fault of regulated prices and other factors beyond the control of the NBP. We have a different view.

Governor Glapiński reiterated that the increased inflation is the fault of regulated prices, as

according to him the sources of inflation are completely independent of the NBP. Inflation is conquered by prices of energy, water, sewage, higher indirect taxes. As a result, throughout 2025, average price growth (around 5% year-on-year) will be double the inflation target. He again presented the inflation projection for the whole of 2025, which shows an extremely pessimistic course for CPI inflation in fourth quarter 2025, when the electricity price freeze will be lifted and the regulator will set new tariffs. Governor Glapiński also added that the blame for high inflation lies completely outside the scope of the NBP.

We see a significant contribution of regulated prices to the CPI increase. However, we point out that Poland has a backlog in the fight against inflation. This is shown by the forecasts of core inflation for the next years, which are much higher than in the Czech Republic, Romania and Hungary. We are talking about central bank forecasts.

The NBP governor also listed a number of inflation risks, but their composition did not change compared to the previous month:

- **Economic recovery:** in 2025 Poland is expected to be among the growth leaders in the EU, and this makes it more difficult to fight inflation;
- **High wage dynamics:** wage growth of around 10% YoY entails strong growth in prices of services and drives up core inflation. This makes core inflation stubborn – it is expected to be elevated at close to 4% throughout this year;
- **Loose fiscal policy:** high public finance deficit of at least 5.5% of GDP and rapidly growing public debt.

The strong zloty is not a concern for the NBP governor. In his opinion, surveys conducted by the NBP indicate that the zloty's exchange rate is not high on the list of companies' top concerns. The zloty is one of the few currencies in the world whose exchange rate is fully floating, but it has been very volatile recently.

Forward guidance: NBP governor sees no rationale for rate cuts in 2025, and further MPC decisions will depend on data.

According to Glapiński, in the face of elevated inflation forecasts, there are no indications for rate cuts in 2025, and further decisions will depend on data.

Wage dynamics and economic prosperity, as well as core inflation, will be key for the Monetary Policy Council's subsequent decisions. Monetary policy is designed to prevent the perpetuation of elevated inflation expectations. According to Glapiński, Council members are looking out for the possibility of reductions, but the inflationary context does not allow for this. Glapiński listed three factors that could induce change in monetary policy stance. He mentioned as lights in the tunnel:

- lower wage dynamics,
- a drop in global commodity prices, e.g. if President Trump's announcements are realised,
- lower electricity tariffs when the regulator updates tariffs in a few months' time.

The governor monitors the economic situation on an ongoing basis and does not assume that he will be outvoted by the Council, as this has never happened.

Our views on the interest rates path

Given the stance of the NBP governor and recent statements by representatives of the Council,

interest rate cuts by mid-year appear to be ruled out. However, in the middle of the year, the domestic and foreign context will allow for a discussion of rate cuts. We assume cuts of 50-100bp in the second half of 2025.

In our view, today the discussion of cuts is a balancing act between still high inflation, but at the same time signals that high interest rates are working hard. Monetary policy restrictiveness has increased due to the strengthening of the PLN, rate cuts outside Poland or strong transmission on bank credit and the propensity to save. Also, changes in bank deposits and loans in the economy reflect the high restrictiveness of monetary policy.

In our view, the balance of risks has shifted slightly towards a lower CPI trajectory in 2025-26. Also, our inflation forecasts for 4Q25, i.e. when the freeze will be withdrawn and the regulator will announce new tariffs, are about 1.4pp lower than those presented by the NBP governor (3.4% YoY compared to 4.8% YoY according to the NBP).

We believe inflation in 2025 will also be lowered by the strengthening of the zloty, which is largely due to the high (and growing) interest rate disparity between the National Bank of Poland and the European Central Bank, and the zloty is currently at its strongest since 2018. A realistic scenario of trade wars this year could lead to oversupply in Europe and also support the scenario of a lower inflation path in Poland than the one presented by the NBP governor today. A potential ceasefire in the Russian war in Ukraine (possible announcement of a decision at a conference in Munich as early as next week) would likely mean a strengthening of the zloty. But if the uncertain reconstruction scenario in Ukraine were to materialise, it would mean some inflationary impulse as well.

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