# A sharp start to the easing cycle in Poland

The direction is not a surprise, but its scale clearly is (75bp vs an expected 25bp cut). Poland joins other emerging markets in easing, despite a more risky inflation backdrop


National Bank of Poland office in Gdańsk

## A 75 basis point cut

On the anniversary of the last interest rate hike, the Monetary Policy Council (MPC) cut rates by 75bp. The direction is not a surprise, but its scale clearly is (we expected a 25bp cut). The MPC did not wait for inflation to fall to single-digit levels, despite this being a condition set by the National Bank of Poland (NBP) president. Also contrary to earlier declarations, the MPC did not start the cycle gradually.

## A weaker GDP outlook, lower demand pressure and inflation expectations but important inflation risks omitted

The main message from the post-meeting statement is that given a weaker global and Polish economic situation, the Council expects inflation to return to the NBP's target quicker than previously expected. The MPC pointed to lower demand pressures and a decline in inflation expectations.

In our opinion, the Council overlooks many risks: expansionary fiscal policy, high wage growth, and the worrisome structure of core inflation (rapidly rising service prices). In addition, the post-meeting statement underlined that "a faster reduction in CPI would be supported by strengthening of the zloty", but today's decision results in the opposite move.

## Thursday's press conference should provide guidance on the easing cycle

The press conference by NBP President Glapiński on Thursday should underline the strategy behind the rate cut today. This may either be a one-time adjustment (the market had priced in about a 125bp cut by the end of the year prior to the decision), followed by a pause, or it is the decisive start of a longer cycle of interest rate cuts. The NBP's past track record disallows that to be settled today. Investors were surprised, as seen in the rapid zloty easing, just after the NBP decision was announced.

## Short-term disinflation should continue, medium-term risks arise

In theory, Poland joins the group of emerging markets that are starting to ease, but it is very different from them: core inflation is falling more slowly than in other Central European countries, while LATAM economies first brought real rates to very positive before launching their easing cycles.

In the short term headline inflation should keep decreasing, but the medium-term outlook is more uncertain. The decline in inflation is due in large part to the receding of the earlier energy shock, but the deceleration in core inflation has been slow. So a further decline in inflation toward the NBP target in the medium term is not clear in our view. The labour market remains tight, resulting in upward pressure on wages. Fiscal policy also remains expansionary. In this context, we perceive the Council's decision as risky from the point of view of restoring price stability in the medium term.

### Author

**Rafal Benecki**
Chief Economist, Poland
rafal.benecki@ing.pl

Additional information is available on request. For more information about ING Group, please visit www.ing.com.