National Bank of Poland preview: Delayed easing cycle to support the zloty

NBP Governor Adam Glapinski made a dovish pivot last month, but at the same time, easing accelerated in both developed and emerging markets. On a relative basis, therefore, the NBP remains hawkish. Recent data has shown limited downside risk to 2024 GDP forecasts but higher core CPI in 2H, so don't expect a major change in the NBP's rhetoric in October

National Bank of Poland Governor Glapiński

Global easing vs. sticky inflation

The challenges faced by Polish monetary policymakers have recently become more complex. On the one hand, global central banks are clearly in a decisive easing cycle as the inflation threat has abated and some signs of weakness in the real economy call for less restrictive policies. The Federal Reserve started its cycle with a bold 50bp move as the labour market cooled, and the European Central Bank is expected to accelerate its easing and cut rates by 25bp at each meeting in the coming months. Central banks in the CEE region are also cutting rates. In this context, the NBP policy looks hawkish, even after the dovish pivot by Governor Glapinski in September.

On the other hand, inflation developments leave no room for monetary easing in the near term.

According to the flash September estimate, headline inflation rose to 4.9% year-on-year and is almost twice as high as the NBP target. We estimate that core inflation rose to 4.2-4.3%YoY last month from 3.7%YoY in August and is expected to remain persistently high in the coming months amid a tight labour market and robust wage growth which is putting continued upward pressure on services prices. We expect the domestic inflation outlook to dominate the MPC communication in the near term, as long as the widening interest rate disparity does not cause excessive appreciation in the zloty.

Rate cuts to start next year

In October, NBP rates should remain unchanged (main policy rate still at 5.75%) with the beginning of a discussion on policy easing unlikely to start before early 2025. Poland is less advanced in reducing inflation than other countries. The relatively stronger increase in labour costs means stickier core CPI in coming quarters, which means that the NBP is likely to start cutting rates later than other central banks.

The majority of the Council currently seems to be leaning towards the start of a discussion about interest rate cuts after the March 2025 projections. This could then be based on more reliable assumptions and data.

- First, NBP staff will know government decisions on electricity (and gas) prices for households in 2025. The current exemption from the continuity fee and maximum price of PLN500/MWh are valid until the end of this year as of now. Theoretically, after lifting the maximum threshold, the price of electricity should increase from 500 to 623, ie the level assumed in tariffs, which would add 0.5ppt to CPI (or 0.8ppt assuming the continuity fee is also restored).
- Second, forecasters will know the impact of higher regulated prices and excise duty on CPI at the beginning of 2025.
- Third, the CPI basket will be updated.
- Finally, policymakers should be able to assess the level of the CPI inflation peak at the turn of 1Q25 and 2Q25 and how close to target CPI will be in 4Q25.

We expect the March projection to point to a substantial decline in headline inflation in the second half of next year and head towards the NBP target afterwards. In our view, the MPC will deliver the first 25bp rate cut in the second quarter of next year and reduce NBP rates by 100bp in 2025 as a whole.

Author

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

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

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