National Bank of Poland rates unchanged; we see cuts later in the year

There were a couple of dovish signals in the statement following the latest data, calling for the return of inflation to the target range a year earlier than in the NBP projection. For this reason, and given that the current monetary policy is the most restrictive in about 15 years, we assume 100bp in rate cuts this year

The National Bank of Poland has cut rates by 25bp

As expected, the Monetary Policy Council (MPC) left the National Bank of Poland (NBP) rates unchanged (the main one still at 5.75%). There were a few dovish signals in the post-meeting statement. We note that in last month s statement, NBP Governor Glapiński said that MPC members had asked to convey that there were factors improving the inflation outlook, which contrasted with the overall hawkish tone of the governor. This month, these factors were reflected in the statement. The Council noted that "data from the business sector signalled a decline in wage growth", acknowledged that CPI inflation in the first quarter was below expectations, and assessed that inflation in the coming quarters "may be lower than previously expected".

There has been a very hawkish message coming from the central bank since 2024/2025, emphasising the risks of inflation rising again. Therefore, no change in interest rates in April is not surprising. However, recent weeks have brought a number of signals that have improved the inflation outlook. In our view, a return of inflation to the range of acceptable fluctuations is possible in the third quarter, which is a year earlier than the latest NBP projection showed. The data since the last meeting has also led to a change in tone of the NBP s communication to a slightly less restrictive one.

The main changes that improve the inflation outlook are as follows. Firstly, the CPI basket update brought a downward revision of January inflation by 0.4 percentage points. Secondly, March did not bring the expected peak in inflation, and instead we are seeing a plateau (in the first three months of 2025, inflation was 4.9% year-on-year). Thirdly, core inflation is less sticky than feared and fell in the first quarter. Fourthly, wage growth slowed significantly earlier this year. Fifthly, the scenario of rising energy prices after the lifting of the cap price in the fourth quarter is unlikely. We see a higher probability to the scenario of a marked reduction in the energy tariff after it is updated by the Energy Regulatory Office, or the scenario of an extension of the frozen price.

The mentioned disinflationary factors should be reflected in the NBP s July projection, which should further increase the MPC s willingness to cut interest rates. At the same time, we do not rule out the possibility that a motion for rate cuts will already appear earlier. If there is a majority in favour of a cut in July, rates could be cut by 25bp. We consider it more likely that the start of the monetary easing cycle will be delayed until September, but in such a scenario, rates can be reduced by 50bp as a first step. By the end of 2025, we see room for rate cuts of 100bp (reducing the benchmark rate to 4.75%). We see the terminal rate to be reached in 2026 at 4.25%, as the ongoing economic recovery and inflation risks in the medium term call for leaving rates at the neutral level. Deeper cuts will be possible if the decline in inflation is accompanied by further appreciation of the exchange rate, as this will improve the inflation outlook, but at the same time additionally tighten monetary policy. Already today, the zloty (in real effective exchange rate terms) is the strongest since 2008 and monetary policy (measured by real rates and real exchange rate) the most restrictive in about 15 years.

Before the rate cuts, however, the Council should continue to change its rhetoric, preparing the market for a turn in monetary policy. Statements by MPC members indicate that the majority are already less hawkish than NBP Chairman Glapiński.

The changes in today s statement are significant, and they are a reaction to data that has emerged since the Council s last meeting.

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