National Bank of Poland set to cut rates in November followed by a pause

The first Monetary Policy Council policy decision in the aftermath of general elections should bring further policy easing, but the NBP is likely to be more cautious than before given previous guidance on limited space for further easing

According to the flash estimate, CPI inflation moderated further in October and turned out slightly lower than expected by the markets. In such an environment the policy choice is between holding rates flat and a 25bp cut (to 5.50%) we find as a baseline scenario.

The central bank will also release the new macroeconomic projections, which should also bring important policy guidance. Overall, it should point to an economic recovery in 2024, with consumption playing the predominant role. At the same time the inflation path should be adjusted downwards, given the lower starting point, but again it would point at CPI returning to the target of 2.5% (+/- 1 percentage point) in 2025 only. We will also see if a 2026 projection will be added, as this may also bring multiple hints about the next decisions.

National Bank of Poland Governor Glapiński's press conference will be closely followed by the markets as it may give some hints on the central bank policy bias ahead. The Council is broadly expected to take a pause in December as rate setters usually avoid making any decisions in the last month of the year unless there is a pressing urgency for policy actions and we do not see it to be the case this year. The pause may be extended into the following months as the Monetary Policy Council will want to see the impact of administrative and political decisions. There is a lot of uncertainty regarding the 0% VAT on food, regulated prices of electricity and gas, policy measures to trim a jump in energy costs and its impact on inflation at the beginning of the year.

We do not rule out that the Council may refrain from any policy moves until the March NBP staff projection, in order to get a clearer picture of inflation prospects. The fiscal outlook also gives arguments for a more cautious approach with respect to policy easing. The 2024 draft budget prepared by the incumbent Law and Justice (PiS) government had already envisaged a sizable fiscal gap (close to 5% of GDP and 6% of GDP borrowing needs). The new coalition government by the former opposition (Civic Coalition, Third Way, New Left) is likely to pursue delivering on some of its fiscal pledges from campaign, driving the 2024 fiscal deficit towards 5.5-6.0% of GDP and borrowing needs to 7% of GDP).

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