

National Bank of Poland governor confirms his dovish pivot

During the September press conference NBP Governor Glapiński was less hawkish than earlier and outlined conditions for monetary easing: stable (even if elevated) inflation and prospects of its return to target. We see the first cut in second quarter 2025 and expect NBP rates to go down by 100bp next year



National Bank of Poland Governor Glapiński

Economic growth

Governor Glapiński noted that second quarter economic growth turned out to be stronger than expected, reaching 3.2% year-on-year on the back of solid consumption, which may lead to inflationary pressures. He also stressed that Poland's growth is relatively high compared to other countries. In particular, it stands out positively against the backdrop of the weak economic situation in the euro area and especially in Germany, where the economy is balancing on the brink of recession.

Price developments

According to the NBP, inflation will rise in the second half and may exceed 5% YoY at the end of this year. What is more, inflation may increase further if measures protecting households from

high energy prices are withdrawn, however the NBP governor noted that government is pledging to maintain some of the relief measures and avoid a further rise in January 2025. Once the impact of the energy price increases expires, inflation is likely to return to target in 2026. At the same time, Glapiński noted that the global inflation environment has improved, assessing that there are no concerns of elevated inflation in the US and the euro area.

While in general the NBP expects domestic inflation to fall in the medium term, Glapiński pointed out the potential upside risks to inflation, including: (1) excessively strong economic rebound, (2) high wage growth, (3) potential increase in energy prices, (4) loose fiscal policy, (5) external economic and price developments and (6) commodity price fluctuations. Glapiński devoted a large part of the press conference to upward risks for inflation, paying little attention to downward risks for price dynamics, but finally presented a rather optimistic view on those risks.

Monetary policy

The NBP chair further clarified his July statement by pointing out that, according to NBP estimates, the inflation target may not be reached until 2026, but it does not mean that interest rate cuts cannot take place earlier. He added that the NBP projections indicate that inflation should decline in the medium term, which will create room for interest rate cuts to limit the rise in real interest rates.

We interpret the fact that Mr Glapiński repeated seven times preconditions for rate cuts (forward guidance) as an important sign of softening policy stance from very hawkish attitude presented in July 2024. According to the NBP governor, the discussion on rate cuts should start when inflation stabilises (even at elevated levels) and NBP projections show it returning to the target. In his opinion it may take place after the second quarter of 2025, with a margin of plus or minus one quarter. In our view it will happen earlier rather than later. We see the second quarter of 2025 as the timing of the first cut. In the first step, rates may be cut by 25bp, without an announcement that this is the start of a whole cycle of cuts.

Bottom line: dovish pivot confirmed

Although there were some hawkish accents at the conference (focus on upside risks for inflation), the NBP president gave a clear signal that he was changing his stance. He repeatedly reiterated that the prerequisite for the start of discussions on cuts is the stabilisation of inflation and projection indications showing a return of the CPI to the target. He said that a possible date for a cut is after the second quarter of 2025, but at the same time indicated that he himself may propose a cut once the March projection is known. We perceive Glapiński's press conference as a softening of his bias. The market received it in a similar way: the PLN weakened slightly against the euro and yields on Polish government bonds moderated during the press conference.

Our baseline monetary scenario continues to assume that the first interest rate cut will take place in second quarter 2025 and that the main NBP rate could be cut by a total of 100bp next year. We expect inflation to ease to around 3-3.5% YoY in the second half of 2025, giving room for NBP rate cuts. We project the monetary easing cycle to continue in 2026, although probably on a smaller scale than in 2025.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

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