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 What is more, inflation may increase further if measures protecting households from high energy prices are withdrawn, however the NBP governor noted that government is pledging to maintain some of the relief measures and avoid a further rise in January 2025.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.

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