NBP's rate cut discussion set to kick off next spring, with easing soon to follow

In today's press conference, National Bank of Poland Governor Adam Glapiński reiterated that the Council may discuss policy easing after its March projections are released. We think that the MPC majority will prefer to wait until the second quarter before cutting rates to make sure that inflation is indeed in decline

We think the second quarter of 2025 could be the potential starting point for rate cuts in Poland

Economic activity

In his assessment of the current state of Poland's economy, NBP Governor Adam Glapiński stated that an economic recovery is underway – but that the incoming data currently appears mixed. GDP growth in the third quarter of this year was probably close to 3% year-on-year. Consumption continued to grow, while investment activity remained subdued. Industry and exports performed poorly amid unfavourable economic developments in the eurozone, especially in Germany, where stagnation is evident and there are no signs of improvement. According to the NBP, consumption growth might ease somewhat in the second half of this year.

Inflation

The NBP governor noted that inflation rose in this year's third quarter, boosted by increases in regulated prices, base effects and services prices. Glapiński said that by the end of 2024, inflation should be in the range of 4.5-5.0% YoY. Inflation now exceeds the NBP's target, and core inflation remains worryingly high. Amid rapidly rising wages, service price dynamics also remain elevated.

According to Glapiński, inflation at the beginning of 2025 will depend on decisions about measures protecting households from high energy prices. A further lift of the energy shield may lead to higher electricity prices. The planned increase in excise duty on tobacco products will also contribute to rising inflation at the beginning of next year. The NBP estimates that inflation might remain elevated until mid-2025 before declining in the second half of the year, but is unlikely to permanently return to the NBP's target until 2026 (if the current level of interest rates is maintained).

Glapiński also reiterated a catalogue of risk factors (mostly upward) for inflation:

- Potentially faster growth in consumption and excessive acceleration of economic growth.
- Sustained high wage growth, which may drive up core inflation through more expensive services.
- The impact of rising energy prices on inflation expectations.
- Expansionary fiscal policy and very high borrowing needs of the state budget.
- The external economic environment.

Monetary policy prospects

The MPC chairman stressed that the rise in inflation since the middle of the year played an important part in the rationale behind the decision to keep NBP rates unchanged again. In addition, according to the central bank's estimates, core inflation also increased last month. This was partially due to base effects (e.g., the catalogue of people eligible for free pharmaceuticals being extended in September 2023). Continued high wage growth also contributed to an upswing in core inflation.

According to Glapiński, the NBP March 2025 inflationary projection may show inflation stabilising, followed by a decline. From that point, the MPC may discuss whether and when to start its monetary easing cycle. As recently as September, Glapiński said that a 25bp rate cut would not necessarily signal an entire monetary easing cycle – but is now convinced that it's most likely something we will see. The chairman justified the change in his opinion with incoming macro data.

Glapiński reiterated that future interest rate decisions will depend on incoming data and the outlook for inflation in the coming quarters. He also pointed out the uncertainty in the inflation outlook stemming from military conflicts in Ukraine and the Middle East.

Bottom line

Governor Glapiński has suggested several times that discussions on interest rate cuts will begin in March 2025, coinciding with the publication of the NBP’s inflation projections. We share this view but believe that the actual decision to cut rates will only occur in the second quarter of the year. Some members of the Council will want to make sure that the projected scenario is indeed materialising and that inflation has started to decline. In 2025, we see room for total monetary policy easing by 100bp carried out in cautious 25bp increments.

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