Poland's central bank keeps rates unchanged; easing likely on hold until 2025

The Polish MPC has determined that demand and cost pressures remain low – and that once the impact of the increase in energy prices expires, inflation should return to the NBP's target. Still, rising inflation should prevent the Council from easing this year as we await a turnaround in the CPI inflation trend in the first quarter of 2025

Adam Glapiński, President of the National Bank of Poland

In line with expectations, Poland's MPC kept interest rates unchanged (with the reference rate still at 5.75%). The post-meeting presser reiterated that the economic conditions in the Polish economy remain weakened and noted that inflation in major developed economies is near target. The rest of the statement was unchanged from September's. The Council continues to believe that demand and cost pressures in the Polish economy remain low, and that once the impact of the increase in energy prices fades – amid current interest rate levels – then inflation should return to the National Bank of Poland's medium-term target.

The global monetary environment is becoming less restrictive. Both core and CEE central banks are reducing rates. The Federal Reserve initiated its rate cut cycle in September with a bold 50bp cut and is widely expected to deliver another 50bp of easing by the end of this year. The European Central Bank has been easing its policy since June this year and currently, markets believe it will deliver 25bp cuts at each meeting until mid-2025, reducing rates by some 150-175bp in total. The NBP has kept interest rates unchanged due to rising inflation, making monetary policy in Poland relatively more restrictive than in other countries. This could potentially generate firming pressure to the zloty.

The main factor preventing the NBP from starting its monetary easing cycle is high and rising inflation, including persistently elevated core inflation. In September, headline inflation amounted to 4.9% year-on-year, almost double the NBP's target of 2.5% (+/- 1 percentage point). Core inflation is projected to rise above 4% YoY again. We expect a discussion on the beginning of easing in Poland to be sparked by the central bank's March 2025 projection and a reversal of the inflation trend. We expect a local peak in CPI inflation in March at around 6% YoY. We expect the Council to cut NBP rates by 25bp in the second quarter of 2025, while the reference rate may be reduced by 100bp next year.

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