National Bank of Poland slows pace of monetary easing

The Monetary Policy Council cut interest rates by 25bp. The zloty weakening following the surprise 75bp cut in September was an argument to slow the pace of monetary easing. We now expect a more cautious tone from the governor at an upcoming press conference. We assume there'll be a further rate cut to 5.5% at the next November meeting, and 4.75% in 2024

National Bank of Poland in Warsaw

Almost unchanged Monetary Policy Council statement

In its post-meeting statement, the Council assessed that demand and cost pressures remain low and inflation expectations are falling. The next policy decisions will depend on incoming information on the outlook for inflation and economic activity. The MPC noted smaller declines in industrial production and retail sales than in August and further reductions in CPI, core and producers' inflation.

Pace of monetary easing slows

The argument supporting the rate cut was a continued marked decline in CPI inflation in

September, although about half of the decline in the annual inflation rate relative to August was due to non-market forces. Housing energy growth eased amid an increase in the cap on energy consumption until which electricity prices are frozen at 2022 levels. Also, fuel prices went down, despite the weakening of the zloty and rising oil prices.

In our view, the MPC decided to slow the pace of monetary easing (to 25bp from 75bp in September) to prevent further weakening of the zloty. Following today's Council decision, the PLN gained temporarily, as some investors expected a more decisive cut.

Press conference tomorrow with a less dovish bias

NBP President Glapiński will host a press conference tomorrow at 15:00 CET. The final market reaction will depend on the presented policy bias. We assume that it will be much more cautious than the one presented after the September decision. Excessive disinflationary optimism may fuel investors' expectations for further rapid monetary easing in the coming months and weaken the zloty. Thus, the NBP would differ from the restrictive core central banks (higher for longer approach) and the cautious approach of other Central and Eastern European central banks.

The inflation and rates outlook

In the short term, the disinflation will continue, while the medium-term outlook is uncertain, as underlined by many central banks. The monetary easing, the increase in global oil prices, the weakening of the PLN and loose fiscal policy are all contributing to the deterioration of the medium-term inflation outlook in Poland. The easiest part of disinflation will last until mid-2024, and a further decline towards the 2.5% target will take much longer. Already today, the decline in core inflation in Poland is slower than in the region, plus Poland is pursuing an expansionary fiscal policy. We assume there'll be further rate cuts to 5.5% at the next meeting in November, and they'll go to 4.75% in 2024

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