Polish central bank kicks off monetary easing with a bold 50bp rate cut in May

The National Bank of Poland delivered the first rate cut since October 2023 amid lower current and expected inflation, slowing wages growth and weaker-than-expected economic activity this year. After a June pause we expect additional 75bp and 25bp cuts by the end of the year, with the next move in July. At the end of 2026 we see the policy rate at 3.75%

The National Bank of Poland cut rates by 50bp, in line with expectations, and we see additional rate cuts in 2025 and 2026

The decision to cut by 50bp was in line with expectations

In May, the Polish Monetary Council (MPC) cut the National Bank of Poland (NBP) policy rate by 50bp to 5.25% from 5.75%. The move was in line with our expectations and broad market consensus. The move marks the first monetary easing action since October 2023.

The much softer statement, but hardly surprising

In the post-meeting statement the Council justified the need to adjust the level of interest rates with three factors: lower current and expected inflation, slowing wages growth and softer data from the real economy. Also, the MPC no longer points out that in the coming months CPI will be above the target range. All of the changes soften the tone of the statement a lot, but this is hardly surprising given that CPI should return to around the target range a year earlier than the March projection was assuming.

Similar to our estimates, the central bank sees 1Q25 GDP growth slightly below 4Q24. The upcoming policy decisions will depend on the incoming data on inflation and the economic outlook.

Forward guidance seems vague

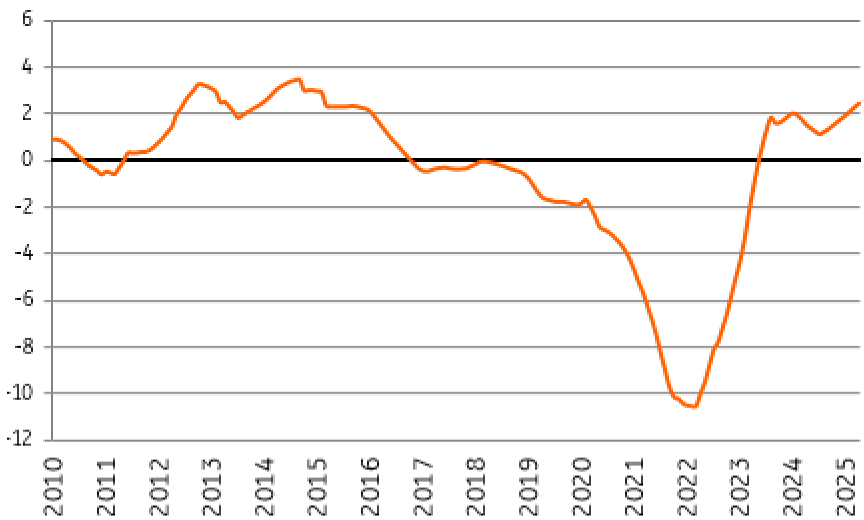
The forward guidance is very general and indicates that further decisions of the Council will depend on incoming data presenting the outlook for inflation and economic activity. We think the governor's press conference tomorrow and MPC members comments in coming days will be more influential. We point out that the governor's stance presented in the press conference in the last few months was much more hawkish than the rest of the MPC. That is why Governor Glapiński made a pivot in April 2025, to avoid being outvoted.

Rates outlook - we see further cuts to 4.50% in 2025 and 3.75% in 2026, but less than the market is pricing

Until March 2025, the central bank maintained a hawkish rhetoric, emphasising upward risks to inflation. However, in April, NBP President Glapiński made a dovish turn, swiftly adjusting communication to the improving inflation outlook. The projected decline in inflation in the coming months, amid high nominal interest rates, led to a significant increase in the real interest rate ex ante (adjusted for future inflation). Based on our inflation forecasts for the next 12 months, we estimate that the real rate has risen to its highest level since 2015.

NBP corrects restrictiveness of its monetary policy

Real ex ante interest rate, %



Source: GUS, NBP, ING

We see significant room for adjusting the restrictiveness of monetary policy in the coming quarters. If our inflation scenario materialises (a decline in inflation to around 3% year-on-year in the second half of 2025), the Council may cut interest rates by 125 basis points this year, and by the end of 2026, the reference rate could fall to 3.75%. The key unknown is the what strategy the MPC will adopt to adjust monetary policy in line with the improving inflation outlook. A 50bp cut is in line with market expectations; however, we rather see a pause in June, with the Monetary Policy Council resuming cuts in July after reviewing the updated inflation projection. We expect subsequent moves to be on a smaller scale (25bp).

Author

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl