Polish central bank signals pause in rate cuts in June, but is not done yet

The May press conference by central bank governor Glapiński aligned with our baseline monetary scenario. It signals a pause in June and a transition to a cycle of rate cuts by 25 basis points. The next cut is likely in July, following the inflation projection, with further cuts in the autumn. The market expected and priced-in too much, too soon

National Bank of Poland Governor Glapiński

The rationale behind the May 50bp NBP rate cut

During the May press conference, National Bank of Poland (NBP) President Glapiński elaborated on the arguments presented in the Monetary Policy Council (RPP) meeting statement, which created room for monetary policy adjustment this month.

Lower current inflation and improved inflationary outlook
In the first quarter of 2025, inflation stood at 4.9% year-on-year, which was 0.5 percentage points lower than expected, partly due to the update of the inflation basket by the StatOffice (GUS). Additionally, despite the increase in administered prices (water, sewage, excise duty on cigarettes), core inflation also decreased. In April, headline inflation dropped significantly (to 4.2% YoY), largely due to the VAT increase on food in April 2024 (high reference base). Lower oil prices on global markets, a weaker US dollar, and a strong zloty also improve the inflation outlook.

Easing wage pressure
The pace of wage growth in the enterprise sector slowed to 7.7% YoY in March, which was noticeably lower than in previous months, although still higher than productivity growth.

Softer data on economic growth
In the first quarter of 2025, economic conditions were somewhat weaker than expected. Both industrial production and retail sales prints fell short of expectations. As a result, GDP growth in the first quarter of 2025 will be slightly lower than in the fourth quarter of 2024.

Inflation outlook

According to the NBP estimates, inflation has already passed its peak. In the third quarter of 2025, it will decrease to around 3.5% YoY, i.e. 0.5 percentage points lower than the central bank forecast from the March macroeconomic projection. The Council still sees inflation risks from energy prices, expected acceleration of economic growth, and loose fiscal policy. The NBP governor noted that the government declares stable energy prices for households in the final quarter of this year. In such a scenario, inflation in the fourth quarter of 2025 may increase only slightly.

Monetary policy and the forward guidance

The NBP governor clearly stated that "adjustment" of monetary policy does not automatically mean the beginning of an interest rate cut cycle. Currently the MPC switched to a data-dependent mode. Governor Glapinski stated that a possible rate cut at the next meeting in June is unlikely. He added that next decisions may occur during the July meeting (with a new inflation projection) or in the autumn (in August there is only a non-decision meeting). According to Glapiński, further cuts will rather be 25 basis points movements.

At the June meeting, the MPC will discuss the level of the obligatory reserve rate and can adjust the corridor for interest rates, i.e., spread between the deposit and lombard rates vs. the reference rate.

Bottom line

The tone of May's press conference aligns with our baseline scenario for interest rates, and we see no need for an update. We expect a pause in rate cuts in June and the Monetary Policy Council to switch to a cycle of rate cuts in a 25bp moves. In our view, the next rate cut will occur in July, followed by further cuts in September and November. Consequently, the reference rate should be 4.50% by the end of 2025. In 2026, we anticipate further rate cuts by an additional 75bp (reference rate at 3.75% by the end of next year). Our inflation forecasts are slightly more optimistic than the NBP's expectations, which leads us to anticipate continued monetary easing by the central bank in the coming months.

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