07 July 2023

Economic Comment

NBP president hints on interest rate cuts

Piotr Bielski, tel. +48 691 393 119, piotr.bielski@santander.pl

NBP president Adam Glapiński said at the press conference today that the MPC has decided to end the monetary tightening cycle to signal they do not anticipate any more interest rate hikes. He also said the next move will likely be a rate cut and laid out conditions for such decision: inflation must drop to single-digit level with central bank's inflation projection still showing further declines in the coming years. He did not rule out that such decision could take place already in September, or later this year. Asked about the scale of possible easing Glapiński said the central bank will move cautiously in small steps, by 25pb as sudden moves are unnecessary. He also suggested that the market pricing of interest rate cuts by c.100bp until the year-end is exaggerated (however our impression is that he could have misinterpreted the question and thought it was about -100bp in one move). Later comments suggested that more than just one 25bp rate cut could be at play. Earlier Glapiński presented the new NBP inflation forecast, which arrives to 3.5% (upper limit of the target tolerance range) at the very end of 2025 – just like it did in March. Such projection is based on the assumption of unchanged rates in the forecast horizon. Asked about the impact of rate cuts on inflation forecast he said that the central bank's analysis suggest that policy easing will not have significant impact on inflation. Moreover, he said he believes that inflation will go down faster than in the NBP projection (although a while earlier he had claimed that the NBP projection is the best and the most accurate forecast of inflation available).

Summing up: today's message was crystal clear – inflation's decline below 10% will trigger a rate cut. Our current forecast shows that CPI may get to 10.3% in August and 9.2% in September. If this is the case, the first rate cut by 25bp may be delivered at the MPC meeting on October 4th, and if CPI drops even faster and gets below 10% already in August the first rate cut would be possible already in September. We think that two more 25bp rate cuts may follow, bringing the NBP reference rate to 6.0% by year-end. In our view the economic scenario will not justify more aggressive monetary easing in the short run so the rate cuts are very likely to pause after the parliamentary elections, and may be resumed around the middle of 2024, assuming that inflation keeps declining.

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Bartosz Białas 22 534 1885
Cezary Chrapek, CFA +48 887 842 480
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857