07 September 2023

Economic Comment

Overdue rate cut, door to more cuts open

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

NBP president Adam Glapinski at the press conference avoided to give a clear guidance about the monetary policy decisions in the nearest months. He said the -75bp rate cut in September was a delivery of "overdue" policy easing from three previous months and next decisions will be data dependent. Glapiński said the MPC waited with the first move to be 100% sure that inflation drops to single digits. He claimed that CPI is "already single-digit" – yesterday and today it was already below 10% (as it turned out, the central bank conducts a daily survey of inflation in Poland!), which, in his view, fulfilled the condition he specified in July. We think that the next interest rate cuts are quite likely in the coming months. First of all, the -75bp was "overdue" rather than "frontloaded" decision. Secondly, Glapiński at all cost avoided any suggestion about a pause in the nearest future, repeating that it will be a data-driven decision. Instead, he spent the first hour of the conference repeating that inflation will keep falling and everyone should be prepared that interest rates will follow. Third, according to our forecasts CPI is likely to keep falling by the end of this year (to 8.9% y/y in September, 7.3% in October, 6.6% in Nov-Dec), which will be used by the MPC as the reason to act. Glapiński stressed at the conference the central bank must prevent real interest rates from turning positive to avoid excessive damage to economic growth.

Thus, we assume two more interest rate cuts: by -25bp in October and November, to 5.50%, and then a pause until at least mid-2024. Such policy easing, premature and excessive in our view, will negatively affect the PLN exchange rate and will worsen inflation outlook, which will be reflected in consecutive inflation projections. But the nearest NBP projection, to be released in November, may be still not sufficiently worse than the previous one to stop the easing cycle, especially that the NBP is likely to extend the forecast horizon until 2026, so it is still possible that CPI will be shown as converging towards the target at the very end of the range. We think interest rate cuts will be paused in the following months, as we expect the disinflation process to stall in 2024: already at the start of te year CPI is likely to rebound, driven by abating base effects, rising prices of energy and food after unwinding the anti-inflation shields, rising fuel prices, weaker PLN and expansionary fiscal policy.

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