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Economic Comment

Rate cuts after CPI stabilises near target

Marcin Luziński, tel. +48 510 027 662, marcin.luzinski@santander.pl

NBP President Adam Glapiński focused today on upward risks to inflation prospects, naming high wage growth, strengthening internal demand and impact of higher energy prices on inflation expectations as most important inflationary factors. Glapiński said also that the NBP is expecting CPI inflation to reach 5.5% at the year-end (close to our forecast) if energy voucher bill enters into force, while core inflation will remain above 4% despite the monetary policy growing more and more restrictive with rates staying flat and inflation declining.

According to Glapiński, rate cuts will become possible as soon as inflation stabilises at a proper level (or if forecasts show its imminent stabilisation), in line with the NBP target (2.5% ± 1 percentage point). He said now is definitely not the right moment to ease the policy and keeping rates unchanged 'at relatively high levels' is the right path to follow. We think the right moment is unlikely to appear in 2024 or in 1H2025, so we are still expecting rates to go down in 2H2025. Meanwhile, NBP President speculated that the right moment might appear in early 2025.

NBP President again stressed high uncertainty in regulatory and fiscal policies and that the MPC is eyeing the core inflation, which remains elevated. He also reiterated that future decisions will depend on incoming data.

To sum up, the Glapiński's message sounded quite hawkish, as it suggested that rate cuts are unlikely until inflation stabilises near the target. In our view this will not happen before 2H2025.

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 +48 517 881 807
Cezary Chrapek, CFA +48 887 842 480
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw. Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.