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Economic Comment

Rate cuts discussion after inflation stops rising

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NBP president Adam Glapiński has fine-tuned his forward guidance regarding monetary policy outlook saying that the MPC may start a discussion about interest rate cuts after inflation stops rising and shows a stabilization for at least 2-3 months and forecasts clearly point to its deceleration in the following periods. At one point of his speech during today's conference he suggested that it could take place "after 2Q 2025" and a bit later that it is also possible "after March or in March". He also denied that in July he suggested 2026 as the first moment of possible monetary easing, calling it a "misinterpretation".

Glapiński listed seven main uncertainty factors that may affect the monetary policy outlook: 1) economic recovery fueled by consumption, 2) elevated wage growth, 3) impact of rising energy prices on inflation expectations, 4) expansive fiscal policy, 5) business climate and inflationary pressure abroad, 6) commodity price volatility, 7) war beyond the Eastern border. Most of them show a potential risk of higher inflationary pressure.

NBP governor stressed several times that the results of new NBP projections will be critical for the start of the easing cycle, which suggests that the first decision seems to be most likely in the month when new NBP inflation report is released (i.e. March, July, November).

Given our inflation forecast, showing that CPI will reach its local peak (near 6%) in March, we keep our call that the MPC may start lowering rates in July 2025, after seeing at least a few CPI prints confirming the end of the upward trend and receiving the new update of NBP inflation forecasts. Earlier move (in March) would be possible, in our view, if the CPI peak appears to be at the end of 2024 rather than in March and the pace of economic recovery looks disappointing. Yet, this is not our baseline scenario for now.

Glapiński said that the first interest rate cut is likely to be small, by 25bp, and will not be an announcement of the easing cycle. We think that once the MPC starts the process of interest rates normalisation, it will be moving gradually by 25bp per month and as a result the NBP reference rate will end 2025 at 4.50%. In the following year it may move to 3.50%-4.00%.

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