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Economic Comment

Interest rate cuts in mid-2025 (unless GDP slows)

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In today's speech the NBP president Adam Glapiński returned to his earlier forward guidance for monetary policy outlook focused mainly on future behaviour of the headline CPI inflation. He said that the discussion on interest rate cuts may start only after inflation stops climbing, when the MPC sees a period of its stabilization, and the forecasts available at that time will confirm its decline in coming quarters. Such conditions, if treated seriously, make the discussion about policy easing quite unlikely before May-June, in the light of our own inflation forecasts or the results of the NBP inflation projection. The projection was again prepared in two versions – one assuming full expiry of anti-inflation shields, second assuming the continuation of energy price freeze – but both show CPI acceleration in 1Q25 (yet of a different magnitude). If so, then at the March MPC meeting the central bank will not see any evidence of inflation stabilization, as the last data point for CPI they will have at the time will be the January print (even not final, but before its recalculation with the new weights), most likely higher than in December. And yet, Glapiński said that the discussion on rate cuts may start already at the March MPC meeting, when new projections will be released. Importantly, Glapiński said also that "for sure" there will be no proposals to cut interest rates before March, as it would be completely irresponsible, and he emphasized that the expansive fiscal policy is a factor delaying the possible monetary easing – thus clearly cooling expectations for any policy easing before March. NBP president said the size of the first rate cut will depend on the pace of inflation decline in the projection, so a move by more than 25bp cannot be ruled out (earlier he claimed that it is very unlikely).

In our opinion, the conditions formulated by President Glapiński should not be taken too literally, as we know from experience that his opinions can change significantly over time. We still believe that the development of economic growth in the coming months/quarters may be even more important for the MPC's reaction function than the CPI trajectory, even if the rhetoric of the NBP Governor is currently different. If we see signals in the next data indicating that the GDP outlook continues to deteriorate, the likelihood of earlier cuts will increase. However, as long as the economy grows at a rate close to its potential (c.3% y/y) – which is in line with our current forecasts and the NBP projection – the MPC will most likely prefer to wait with the first cut until inflation stops trending up. Therefore, we remain of the opinion that rate cuts will start closer to mid-2025 rather than to March. Nevertheless, the latest domestic economic data, as well as the possible consequences of the US presidential election, cast some doubts over the prospects for economic growth of Poland, which is why the risk of earlier cuts is growing.

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