

Economic Comment

NBP president delays rate cuts again

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

NBP governor stunned markets today, starting the monthly conference on a very hawkish note, with a declaration that after the government's decision to freeze energy prices until September 2025, the discussion on interest rate cuts in Poland is no longer likely in March, but may rather be postponed until October 2025. Also, the start of discussion does not warrant an immediate decision, in his view, and thus the next interest rate reduction may be delayed (again) until 2026. Let's remind that in July this year Glapiński declared for the first time that there may be no interest rate cuts until 2026. Then, he retreated from this statement in late August, and at September's conference even claimed he never talked about no policy easing until 2026. In October and November he was suggesting March as a possible moment of the next rate cut, and now in December he stated that the rate cuts may be "again" delayed until 2026.

The reason for the change of the rhetoric is that, according to the central bank models, inflation may "rise abruptly again" in 4Q25, after the energy price freeze expires, so the earlier defined condition of sustainable inflation's convergence towards the target will not be met. In his view, the moment of inflation's return to the official target is delayed by around 6 months by the government's decision on energy prices. Also, during the conference Glapiński downplayed the disappointing 3Q GDP data, emphasizing that October's numbers showed a rebound and that a further economic recovery is predicted in 4Q24 and in 2025. He also pointed to elevated core inflation (above 4%), which does not show any tendency to decline (some time ago the same Glapiński claimed that inflation below 5% is actually low and "barely observable"), and to expansive fiscal policy in 2024-25, which favours higher inflation. Overall, the NBP governor picked every possible argument to justify that monetary policy easing should not be expected anytime soon. He also said explicitly that the new NBP's inflation projection in March will offer no breakthrough, even though earlier himself and other MPC members claimed that it will be a critical document that may open the door for discussing change in monetary policy.

The message from today's conference is strongly against the recent market sentiment, which has been not only pricing-in rising probability of the first rate cut in March, but even in a bigger scale than -25pb. We have held the view for quite some time that the first NBP interest rate cut will probably take place around mid-2025, most likely in July 2025, and we still stick to this view. We think that by July it may be clear that energy prices do not have to go up in late 2025 (actually we even see a downward risk, as the wholesale prices are trending lower). We still assume that 100-125bp rate cuts are possible in 2H25.

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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 Biały +48 517 881 807
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857