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Economic Comment

Interest rate cuts discussion has started, even though the NBP governor's tone remains hawkish

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NBP governor Adam Glapiński admitted during his conference today that the MPC has spent a long time at the last meeting discussing conditions for a possible interest rate cut and its possible timing. However, he preceded this statement with a very hawkish message, saying that at the moment there are no conditions at all for monetary policy easing and the stabilization of rates is absolutely needed to make sure inflation gets back to the target in the medium term.

Glapiński has focused on the near-term inflation outlook, which is not great as the new NBP projection foresees CPI near 5% at the end of 2025 and core inflation stabilizing near 4% (as it is based on the assumption, not very realistic in our view, that energy prices for households will soar at the end of the year, after the current price freeze expires). He also downplayed the predicted inflation's decrease in the medium run, emphasizing risk factors that may push it higher: 1) uncertainty about wages, 2) uncertainty about situation in Ukraine and effects of trade wars, 3) uncertainty about future fiscal policy, 4) uncertainty about energy and fuel prices (he mentioned ETS2 that is about to be implemented in 2027). He also referred to the planned overhaul of fiscal rules in the EU and Germany that may result in economic recovery, creating additional inflationary risk.

NBP president also said that the current interest rates are not constraining economic growth or investments. Referring to argument that the central bank could see through the current inflation spike, as it is generated mainly by the regulatory factors, Glapiński said that it is impossible to do without the change of legislation as the law requires the central bank to focus on targeting CPI, not core inflation measures. Asked about the strong PLN he admitted that the currency appreciation helps in disinflation, but said that he is not worried about the trend and its impact on exporters, and that the central bank has no intentions to influence the exchange rate. At the end Glapiński admitted that it is quite likely that the next decision will be a rate cut, and that such decision will be possible if CPI performs better than in the NBP projection – a monotonic inflation's decline is needed first.

Overall, we think that the most important takeaway from today's conference is that the debate on monetary easing in the MPC has already started, so despite the generally hawkish tone of Glapiński's speech we feel quite confident that the moment of the first rate cut is not moving further away. We still think the first interest rate cut is possible in July, after the presidential elections are over, inflation starts trending lower and the risk of electricity price spike in 4Q disappears (by then, either energy companies will present lower tariffs, or government will extend the price freeze, in our view). We think that after MPC starts cutting the reference rate, it will move steadily towards 3.5-4.0% in 2026.

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