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POLAND

National Bank of Poland press conference: hawkish start to dovish end

The President of the National Bank of Poland first called yesterday's cut as an adjustment of rates, not the beginning of a cycle of cuts. Finally, he signalled a September cut with the target rate seen in the range of 3-3.5%. We see a 50 basis point cut in September and a target rate of 3.5% in 2026



NBP Governor Adam Glapiński

Decision after an exceptionally long discussion in the Council

Contrary to the consensus expectations, the Monetary Policy Council (MPC) cut interest rates by 25 basis points on 2 July. The reference rate is therefore 5.0%. Today, National Bank of Poland President Glapiński argued that after an exceptionally long discussion, about the prospects of inflation falling to the deviation band from the inflation target in July, the Council decided on a cautious rate cut.

It turns out that the May cut was not a one-time adjustment, but the beginning of a cycle of monetary policy easing. However, it will be a specific cycle, consisting of many "one-time adjustments" of rates in the same direction. Yesterday's decision was surprising due to the hawkish tone of the NBP President's communication after the June meeting and the

statements of MPC members. In June, the NBP President emphasised numerous risks to inflation. For this reason, expectations for cuts at the July meeting were low, despite in our view the fundamentals of the economy fully justifying such a decision.

The rationale of the decision from the statement

In the statement following the meeting, the Council justified the adjustment of interest rates by citing a slowdown in wage growth, weaker economic data, and, most importantly, a lower inflation path in the July NBP projection compared to the March projection. Specifically, despite the latest projection assuming rates at 5.25% (March projection: 5.75%), the inflation rate is 4.0% year-on-year in 2025, 3.1% in 2026, and 2.35% in 2027 (compared to 4.9%, 3.4%, and 2.5% in the March projection). Today, we learned that the inflation forecast for this year assumes an "unfreezing" and a sharp increase in electricity prices in the fourth quarter. This seems doubtful due to the parliamentary works extending the retail energy prices freeze. The bill was already presented for the President's signature. Also, wholesale electricity prices are much below frozen retail prices, which indicates that retail prices may stay stable or even drop when the price freeze will be removed.

Inflation outlook

The conference presented many contradictions. Interest rates have fallen, but the description of the economic situation was hawkish. The NBP President began by stating that inflation in June stabilised at 4.1% YoY, while core inflation was at 3.3% in May. At the same time, a lot of attention was paid to inflation risks, including regulated prices, which according to the President, were the main cause of inflation in the past, as well as the issue of unfreezing energy prices from October.

Professor Glapiński pointed out that there are four main long-term inflationary risk factors for the new projection, which presents inflation permanently returning to the target:

1. **Fiscal policy** - there will be no fiscal tightening next year, and the structural deficit will remain high.
2. **Economic situation** - GDP growth accelerated in the second quarter and dynamic growth is expected in 2025-27, despite the currently observed slowdown in industry and construction.
3. **Labour market situation** - wages growth slowed to 8.4% YoY in May but with better GDP growth and exceptionally low unemployment, wages may resume a more dynamic growth.
4. **Electricity prices** - uncertainty regarding electricity prices in the fourth quarter, as the freeze was included in the so-called windmill law, which has not yet been signed by the President. There are also risks arising from oil price fluctuations due to tensions in the Middle East. Regarding electricity prices and the impact of this factor, the President again presented a pessimistic scenario, assuming that electricity prices will rise in the

autumn (an increase from 500 to 623 PLN/MWh). In our opinion, prices will remain unchanged, which is the main reason for the differences in the average inflation forecast for this year between the NBP (4.0%) and us (3.5%).

During the conference, the NBP President also mentioned:

- The overly ambitious EU climate policy and the risk of introducing the ETS2 emissions trading system from 2027, which could then boost inflation by 2 percentage points.
- Progress in the implementation of the National Recovery Plan and concerns about the possibility of full utilisation of funds.
- The strength of the zloty despite turmoil in global trade policy.
- The low level of the real interest rates in Poland. According to the National Bank of Poland, real rates in Poland do not deviate from other countries. In our opinion a look into the past shows that they deviate from historical values in Poland and are the highest since 2015.
- The limited impact of Trump's trade policy on the Polish economy.

Forward guidance

Today's conference was full of contradictory messages and in our view the NBP's communication remains unclear. In our opinion, the majority in the MPC assumes that inflation will fall near the inflation target as early as July and will remain around these levels in the projection horizon. The technical assumption regarding the unfreezing of electricity prices, which boosts the inflation path in the period fourth quarter 2025 to third quarter 2026, is considered unlikely by the MPC, especially in the context of the initiation of the procedure for the continuation of the price freeze law after the projected cut-off date.

Conclusions

Initially, the NBP President refrained from describing the series of interest rate cuts as a "cycle," but towards the end of the conference, there were many comments with a dovish tone. The President said, among other things, "We are at the inflation target. Rates are falling. In September, if circumstances are favourable (...), we will continue in this direction. I hope that nothing will pull our inflation away from the low level." Today's conference reinforces our view that we can expect the continuation of interest rate adjustments after the summer holidays. With the expected decline in inflation close to the inflation target of 2.5% as early as July, the MPC may cut interest rates by at least 50 basis points in September. In our opinion, the target rate is 3.5% in 2026.

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