

## National Bank of Poland preview: July cut likely off the table

The National Bank of Poland is set to keep rates unchanged in July. A return to target for CPI should call for monetary policy easing in the second half of the year and beyond, but for now, the NBP is sending hawkish signals and shows high sensitivity to medium-term CPI risk. Our baseline scenario assumes one 50bp cut in 2025 and an additional 50bp move in 2026



National Bank of Poland Governor, Adam Glapinski

### Even as the inflation outlook improves...

Even though the MPC is unlikely to deliver another rate cut this week, Poland's inflation outlook continues to show signs of improvement. That said, the flash June CPI came in at 4.1% YoY – above both market consensus and the May reading of 4.0%YoY. Available data also suggests that core inflation (excluding food and energy prices) rose slightly, reversing a downward trend.

However, the Energy Regulatory Office (URE) announced at the end of May that a new level of regulated gas prices for households will reduce the average gas bill by around 10% from July, cutting around 0.2-0.3ppt from annual CPI inflation. Additionally, Polish Prime Minister Donald Tusk announced last week that the government will continue to freeze electricity prices for

households until the end of 2025 (a three-month extension compared to the previous plan). We had already assumed in our model, but it hasn't been accounted for by the National Bank of Poland. Our forecasts indicate that July's CPI (published at the end of the month) is likely to be marginally above the central bank's target of 2.5% and remain there in the coming quarters.

## ...rates are likely to be kept hold in July due to medium-term CPI risks

At its July meeting, the MPC will see updated macroeconomic projections prepared by the central bank. However, since the cut-off date for the forecasts is around mid-June, the latest government decision will not be included in the NBP's outlook. As a result, the MPC is expected to maintain its stance – frequently reiterated by NBP Governor Adam Glapiński – anticipating a rise in CPI from the fourth quarter of 2025. This is likely to be one of the reasons why interest rates may remain unchanged in July.

According to recent comments from MPC member Ireneusz Dąbrowski, solid wage pressure growth provides yet another reason that a rate cut next month is likely off the table. Long-term uncertainty surrounding fiscal policy also plays a role; during the June press conference, Glapiński underlined that loose fiscal policy and the return of higher wage growth continue to act as strong pro-inflationary forces. Since then, wages have slowed again, but the probability of fiscal expansion remains high given the political polarisation that has followed the country's recent presidential elections.

As a result, some rate setters may be willing to wait for more information about a) the fiscal outlook for 2026, b) the government's final decision on accepting a bill extending electricity prices freeze till end of 2025, c) the scale of the inflation decline over the summer months, and d) other high-frequency data releases after recent mixed signals. May's data, for instance, showed weaker-than-expected industrial production, poor construction and assembly production, offset by strong and broad-based consumer demand.

All in all, our baseline scenario leans towards a September cut, by which time we'll see the draft bill of the 2026 state budget and gain more clarity on the global trade war, conflict in the Middle East, and the domestic economy. Our baseline assumes a 50bp cut in 2025 and an additional 50bp cut in 2026 (with the target rate at 4.25%) – fewer than both market pricing and consensus among economists.

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