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POLAND

NBP preview: We don't think we'll get an October rate cut, but it's close

Wednesday's National Bank of Poland rate decision will be a close-run thing. We suspect the NBP will remain cautious and wait for new forecasts next month before making any cuts, so it has a clearer picture of the macro outlook

To cut or not to cut? It'll will be a close call for NBP Governor, Adam Glapiński

Fiscal outlook deterioration the main argument for a pause

The October Monetary Policy Council decision will be a close-run thing, and Polish analysts are evenly split between those who expect a 25bp cut and others who foresee a pause. We are in the second camp, as recent comments from several MPC members, including a National Bank of Poland vice governor, have stressed various upside risks to inflation, such as loose fiscal policy, as the main rationale for a cautious approach to further policy easing.

It is worth noting that in September, two rating agencies (Moody's and Fitch) downgraded Poland's outlook to negative, citing a deterioration of the fiscal situation and a more challenging political environment that may make any consolidation measures difficult.

In our view, another argument in favour of a 'no change' decision this week is that the MPC has already reduced policy rates by 100bp this year, but still refrains from calling its moves a 'cycle'. A pause in October would be more consistent with a 'monetary adjustment' strategy communicated by central bankers so far.

Data from the real economy does support more rate reductions

That said, there are plenty of arguments which suggest policymakers could favour a cut this month. In August, we saw wage growth data which indicated wages were 'gravitating downward' instead of stabilising at a high level, as the MPC fears. Employment levels also continue to decline, although August appears slightly better in seasonally adjusted terms, and the negative trends seen in the labour market are not worsening.

Industry has continued to stagnate for more than three years, largely due to a decline in Germany's economy. There is also, of course, a problem with Polish industry's competitiveness, following sharp increases in wages in recent years, coupled with large investment backlogs among companies and intensifying competition from Asia. Inflation risks are easing as indicated by another negative reading of PPI price deflation.

At the same time, the electricity price freeze was formally extended into the fourth quarter of this year, and September's flash CPI numbers surprised to the downside. That's why the timing of the next cut – a choice between this month and November – is such a close call. And don't forget that at September's press conference, NBP Governor Adam Glapiński stated that the energy price freeze would support a rate cut, which was something of a surprise given previous arguments for keeping monetary policy restrictive.

We continue to expect only one more 25bp cut this year in November, when the new NBP projection is published. In 2026, the MPC is expected to deliver two more reductions, bringing the target rate to 4.00%. Risks to our baseline scenario remain tilted towards lower interest rates, as the upcoming CPI numbers are expected to be close to the central bank's target (2.5% +/- 1pp) while wage pressures are expected to ease further.

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