

National Bank of Poland likely to resume rate cuts in September as inflation dips

June CPI inflation was confirmed at 4.1% year-on-year, but the market is already focused on the July reading when price growth is likely to moderate below 3% YoY, i.e. close to the NBP's target of 2.5%. This would leave policymakers no option but to continue monetary easing, potentially even by 50bp in September, when the next meeting is scheduled



The StatOffice confirmed that headline inflation in June inched up to 4.1% YoY from 4.0% YoY in May amid higher services prices (6.3% YoY vs. 6.0% YoY) and a slowing annual decline in fuel prices. We estimate that core inflation, excluding food and energy prices, increased to 3.4% YoY from 3.3% YoY in May due to rising prices of services linked to foreign tourism (7.1% month-on-month) and transport (5.5% MoM).

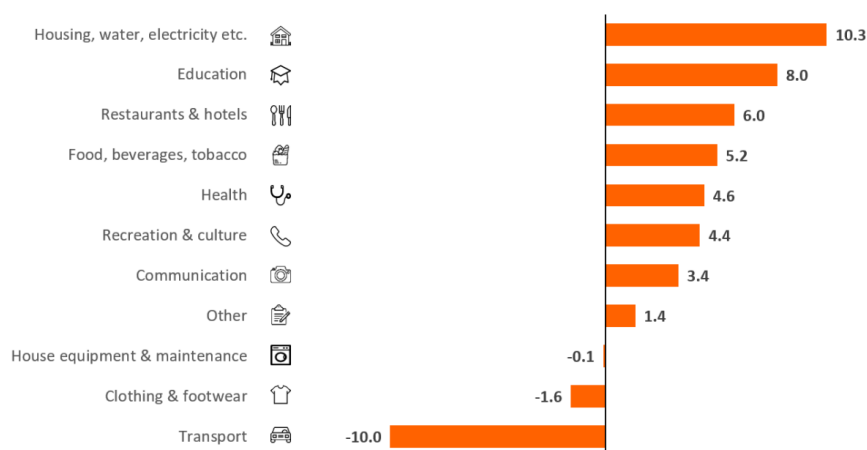
The market's attention is currently focused on the July inflation reading (due at the end of the month) when a marked decline is expected because of the high base effect from July 2024 when there was a partial liberalisation of household energy prices. We anticipate that the MoM price increase this July will be significantly lower than in July last year when prices rose by 1.4% MoM.

This should bring the annual inflation rate down to below 3% YoY.

The capacity fee was reinstated this month, which for the average household consuming electricity means an increase of PLN11.14 net a month. At the same time, new lower gas tariffs for individual consumers have come into effect. As a result, the rise in energy carrier prices compared to June will be benign, and in annual terms, the rate of increase will fall from around 13% to low single-digit levels.

Headline inflation to moderate from June amid expected slowdown in energy price growth

Consumer prices, %YoY



Source: GUS.

The inflation outlook is favourable. Not only is inflation expected to be close to the NBP's target in 3Q25, but we also see no risk of a significant rebound in the coming quarters. Parliament has passed a bill extending the electricity price cap through 4Q25 (awaiting the President's signature), and the global environment is not generating inflationary pressures (low commodity prices, including crude oil).

Against the backdrop of an expected CPI inflation decline in July and stabilisation afterwards, we anticipate that the Monetary Policy Council (MPC) will continue easing in the coming months. After the summer break (no decision-making meeting in August), the Council may cut interest rates by as much as 50bp in September, due to the further decline in inflation and the enactment of legislation maintaining the electricity price cap at PLN500/MWh net. The draft budget for 2026, expected at the turn of August and September, is unlikely to bring a further increase in the fiscal deficit as a percentage of GDP. Moreover, labour market data should confirm a gradual decline in wage pressure. We expect a further NBP rate cut of 25 basis points in November. As a result, at the end of 2025, the reference rate may stand at 4.25%.

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