

Hawkish tone maintained at NBP press conference

The National Bank of Poland's president might give the impression that the chances of rate cuts may be diminishing in the current communication. However, the CPI inflation path in the second half of this year and into 2026 could well be lower than the NBP assumes. And MPC members are sending increasingly dissenting signals



More hawkish balance of inflation risks than presented in February

Poland's central bank press conference had a predictable hawkish tone, as indicated by its statement. President Glapinski focused primarily on inflation risks throughout the presser, only briefly mentioning factors that could improve the inflation outlook at the end, as requested by MPC members. The narrative was predominantly centered on CPI risks.

Governor Glapinski highlighted the significant role of administered prices in inflation growth since March 2024.

It was also no surprise that Prof. Glapinski presented a pessimistic inflation projection assuming a

jump in energy prices in 4Q25, after the ceiling price expires. He noted that the NBP's projections also do not show a "monotonic" decline in CPI to the central bank's target of 2.5%. According to the new projections, inflation will not reach the target until 2027, which is later than in the November projection.

We also see that the governor's balance of inflation risks is focused on wages. The NBP also strongly emphasises the expected recovery of the economy, with a strong contribution from domestic demand. Among other inflation risks, the NBP president mentioned, as he did a month ago, loose fiscal policy (a deficit of around 6% of GDP).

Governor Glapinski also devoted some time to talk about long-term risks to inflation such as the uncertain pace of wage growth deceleration, the impact of the war in Ukraine, trade wars, commodity prices, fiscal policy and risks related to climate policy, including the implementation of ETS2, which could drive up fuel, gas and coal prices.

We have a different view on the causes of currently elevated inflation, and our inflation forecast is based on assumptions different from those of the NBP.

We note that in March 2024, when CPI inflation was only 2.0% YoY, core inflation was at 4.6% YoY. The persistence of core inflation both last year and today, is related to the inflationary policy mix in earlier years. The current elevated CPI is thus a combination of persistently high core inflation and administered prices, not simply administered prices as communicated by the NBP. Our models show that the persistently high core should gradually decline in 2025-26.

We also differ from the NBP in predicting the course of CPI in the coming quarters. The trajectory of wholesale energy prices, as well as signals from the Ministry of Climate and Environment and distribution companies, suggest that new tariff proposals will be close to the current price cap, so we do not expect electricity bills to rise after the cap price is lifted. We see a chance that by the end of 2025, inflation may be slightly above the upper limit of deviation from the NBP's target (i.e., it will be around 3.6% YoY, rather than around 5% as assumed by the NBP).

The NBP will probably take all these factors into account in its July projection, after updating the Energy Regulatory Office's tariffs. Therefore, the discussion of interest rate cuts will not begin until the second half of this year, when there may be some room for interest rate cuts.

Forward guidance similarly restrictive as in February

The overall tone of the forward guidance was restrictive but largely unchanged compared to February. President Glapiński emphasised that, in the NBP's view, there are currently no arguments for lowering interest rates. At the same time, the central bank believes that the current level of interest rates does not hinder economic development or investment. The level of real interest rates (ex post) is similar to that in the eurozone and lower than in other countries in the CEE region. However, we note that the level of real interest rates calculated ex-ante is high by Polish standards. The NBP's projection indicates that, under the scenario of unchanged interest rates, inflation will return to target over the medium term. In the MPC's assessment, there is currently no need to bring inflation to target faster via interest rate hikes.

The MPC discussed the possibility of future interest rate cuts, and President Glapiński admitted that the next move in monetary policy will most likely be a cut, although it is not currently clear when this might happen and will depend on incoming data and developments in the decline of inflation.

The President avoided answering the question of whether interest rates could be lowered in 2025.

Our view on rates

In our opinion, the transmission of current interest rates to the economy is becoming increasingly stronger (as seen in the performance of PLN in the last few months, its impact on exporters, high savings rate, and low propensity of companies to invest), which creates room for a some monetary policy fine-tuning - read 'cuts' - in 2025.

Reading the current communication from the NBP President, one might get the impression that the chances of rate cuts are actually decreasing. The CPI path in the second half of 2025 and 2026 is heavily dependent on a single tariff decision. Its impact on inflation, in our opinion, will be different from the NBP's projection. This could give the NBP a downward inflation surprise in the second half to this year and make room for cuts of between 50 and 100bps.

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