National Bank of Poland preview: Rates on hold for now with a hawkish tilt likely

Soaring energy prices and an upside surprise to the April CPI are unlikely to prompt immediate rate hikes in Poland, but they are strengthening the case for a more hawkish National Bank of Poland (NBP) narrative. Policy rates should stay unchanged for now, with the July projections being a potential turning point

With elevated oil prices and a higher-than-expected April CPI reading, we expect the National Bank of Poland to keep rates on hold at 3.75%

April CPI inflation surprised to the upside, rising to 3.2% year-on-year, most likely driven by stronger core inflation. While the activity data for March were also stronger than expected, but presumably due to companies restocking before expected price rises. While this reinforces the case for vigilance, we believe it is still insufficient to trigger an immediate policy response. We therefore expect the Monetary Policy Council (MPC) to keep rates on hold at 3.75% in the coming months.

That said, the tone of communication is likely to shift. Rate setters may increasingly emphasise upside inflation risks and signal a readiness to act if conditions warrant. In our view, the MPC will seek to underline that policy is not on hold indefinitely and that tightening remains an option should inflation pressures broaden.

Also, longer-term CPI risks could intensify. The lack of progress in US–Iran negotiations and the continued effective blockade of the Strait of Hormuz have pushed crude oil prices above US$100/bbl. This renewed escalation in energy markets is fuelling concerns about the inflation outlook, both globally and domestically. For Poland, the balance of risks has clearly shifted upward, but the high degree of uncertainty surrounding the duration and transmission of the energy shock calls for caution.

As a result, the MPC is likely to keep interest rates unchanged at the May meeting, opting to gather more evidence on the impact of elevated oil prices on inflation dynamics and economic growth. But, we expect the central bank's communication to gradually adopt a more hawkish tone. The July release of the NBP's updated macroeconomic projections could mark a key moment for reassessing the inflation outlook and the medium-term path of monetary policy.

Our baseline scenario remains one of stable policy rates in the near term. The MPC is reluctant to respond mechanically to a supply-driven shock, particularly given the limited effectiveness of rate hikes in countering higher energy prices and the potential costs to economic activity. However, if incoming data were to point to rising inflation expectations or the emergence of second-round effects, the Council could be forced to reconsider its stance and move towards tightening.

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