The NBP tightens its bias amid fundamental upside risks to Polish inflation

The National Bank of Poland's rhetoric has turned more hawkish again. The NBP sees upside risks to inflation from reviving consumer demand, still elevated wage growth, continued loose fiscal policy and uncertainty about electricity prices in the fourth quarter. The NBP does not share our view that CPI could be below target in the second half

National Bank of Poland Governor, Adam Glapinski

The rationale behind the decision

The National Bank of Poland's Governor, Adam Glapiński, justified the decision of the Monetary Policy Council (MPC) to keep interest rates on hold with few arguments; GDP growth, for instance, remained above 3% in the first quarter of 2025, while better-than-expected data on industrial production and retail sales suggest an acceleration of economic growth in the second quarter of the year, driven by a revival in consumer demand. He admitted that gas prices should decrease as a result of the Energy Regulatory Office (URE) decision on regulated prices, but on the other hand, the fundamental factors that could drive inflation high in the medium term have increased. In this context, the governor mentioned the still-high wage dynamics and the lack of prospects for fiscal policy tightening.

Inflation and its prospects

Assessing inflation trends, the Chairman of the Council noted a decrease in May to 4.1% Year-on-Year, which is 0.8 percentage points lower than at the beginning of 2025. He also acknowledged that the URE decision to cut natural gas prices might reduce inflation, but according to the NBP, it will be around 3% YoY in 3Q25, i.e., higher than we expect.

Once again, Glapiński reiterated that the lack of formal decisions regarding regulated electricity prices in 4Q25 means that the NBP assumes electricity prices will rise at the end of the year. According to Professor Glapiński, loose fiscal policy also has a pro-inflationary effect. In 2025, the European Commission (EC) predicts the general government deficit in Poland of 6.4% of GDP, which will be almost the highest level of fiscal imbalance in the European Union. Moreover, according to the EC, there would be no fiscal tightening in 2026, and public debt is expected to exceed 60% of GDP. Additionally, the wage growth rate remains too high to ensure a sustainable return to the target inflation rate.

Monetary policy and its outlook

As for the upcoming monetary decisions, the NBP should still follow the data-dependent approach. He stated that the July macroeconomic projection would help to assess the long-term inflation outlook. By that time, new data on wages and inflation will also be available. The main sources of uncertainty are the level of energy prices in 4Q25 and the 2026 draft budget. These uncertainties will not become clear until the autumn. Therefore, some Council members want to hold off on further decisions until September, while others see room for a rate cut as early as July.

The bottom line

The overall tone of the NBP governor's press conference was quite hawkish. There were no clear declarations of readiness to further ease monetary policy. The NBP chair emphasised inflation risks related to electricity prices and fiscal policy, attaching less importance to the decline in current inflationary pressure and the disinflationary impact of the URE decision on gas prices. This suggests that the NBP will not rush to further ease monetary policy.

We expect that current inflation data and the new projection may provide arguments for further interest rate cuts, but the NBP's reaction function seems to be changing again. Our previous baseline scenario, which assumed a 25 basis point cut in July and two more cuts in September and November, is now more uncertain. According to our forecasts, inflation will be within the NBP's target range by July, and we still consider the increase in electricity prices in the fourth quarter to be unlikely, given the price developments in the wholesale energy market. However, the NBP does not show a willingness to continue interest rate cuts soon.

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