Polish CPI decline in August seals rate cut next week

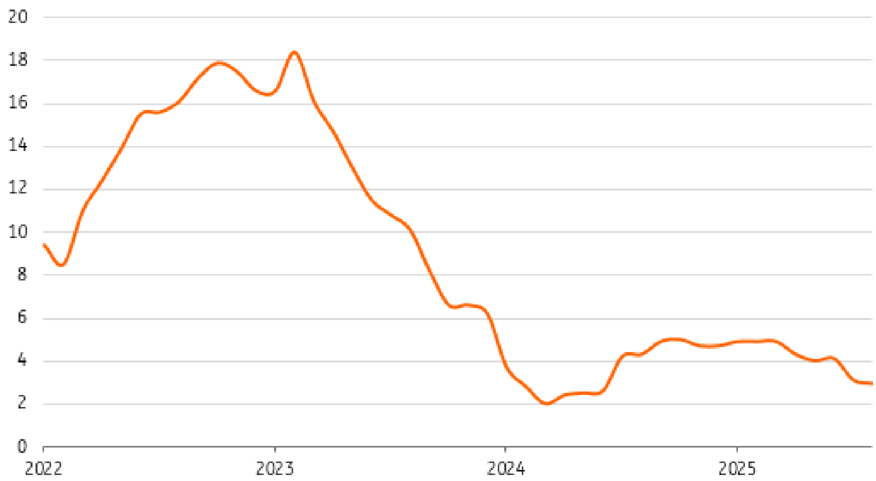
The decline in headline inflation to 2.8% YoY in August and further easing of core inflation would likely allow policymakers to cut rates by 25bp in September, but highly expansionary fiscal policy is expected to prompt a cautious approach ahead. Rate setters may pause in October and return to the rate cut discussion in November

Positive surprise from August CPI...

Poland's CPI inflation moderated to 2.8% YoY in August from 3.1% YoY in July, slightly lower than the market and our expectation of 2.9% YoY. Compared to July, consumer prices declined by 0.1%. August brought a typical seasonal decline in food prices in month-on-month terms, but its scale was slightly smaller than our forecast. At the same time, the decline in fuel prices was almost spot on with our estimates, and energy barely changed. The main source of positive surprise in August headline inflation was core inflation, which excludes food and energy prices. According to our estimates, it fell to 3.1% YoY in August from 3.3% YoY in July.

Further decline in consumer inflation in August

CPI, %YoY



Source: GUS.

… means the door for a rate cut in September is wide open

Headline inflation in Poland is already close to the central bank target and securely within the range of acceptable deviations from the target (2.5%; +/- 1 percentage point). The inflation decline over the summer and the continued fall in core inflation represent positive news for the Monetary Policy Council (MPC) that meets next week after a summer break. With inflation nearing target levels and the National Bank of Poland's nominal reference rate still relatively high at 5.00%, we expect most policymakers to support a 25bp rate cut.

… but more bumpy road is ahead

Recent communication from the central bank has suggested that further policy easing is conditional on: (1) economic growth, (2) labour market developments, (3) energy prices and (4) fiscal policy. In most of these areas, some progress has taken place in recent months. Economic activity is solid, but not so buoyant as to generate significant upward pressure on prices. Wage growth slowed in July and was lower than market expectations. Both the government and the president claim to support the extension of a cap on electricity prices for households in 4Q25. The only negative development is the fiscal stance, which in 2025 is more expansionary than planned earlier (general government deficit of 6.9% of GDP vs. 6.3% of GDP expected earlier), and the 2026 draft budget bill does not bring any significant tightening. We expect the NBP Governor Adam Glapiński to highlight the fiscal risks at his press conference next week, and it may be an important argument for a more cautious approach to monetary easing in the months following September. The last data calls for a September 25bp cut, but we may have a pause in rate cuts in October, and the Council may return to the discussion about potential cuts in November, when the new central bank staff economic projection becomes available.

In our view, inflation will continue running close to the NBP target in the coming months, which means there is still room for further monetary easing, also in 2026.

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