Polish rates cut on better inflation outlook

The October decision on Polish rates was a close call. Market consensus was evenly split between those betting on unchanged rates and those expecting a 25bp cut. Policymakers decided to cut rates by 25bp, citing an improvement in the short-term inflation outlook. It may be the last cut this year, but markets will likely speculate on another move in November

NBP Governor Adam Glapiński

The National Bank of Poland's Monetary Policy Council decided to cut interest rates by 25bp in October. The main policy rate was reduced to 4.50%. In the post-meeting press release, the Council justified the move by citing an "improved outlook for the coming period", which likely reflects the recent extension of the freeze in electricity prices for households in the fourth quarter. Rate setters also noted a "gradual slowdown in wage growth".

Although the MPC stopped short of calling its actions an easing cycle, it delivered a rate cut for the third consecutive policy meeting. There were a lot of economic arguments for lowering the cost of money in October, but muddled communication left market participants evenly split, with some expecting a 25bp cut while others anticipated no change. Thursday's press conference by NBP

Governor Adam Glapinski is expected to shed more light on the rationale behind the October decision. Still, the Council likely judged that upside risks to inflation had eased somewhat. The freeze on household electricity prices was extended through 4Q 2025, and wage growth moderated in August. At the same time, consumption-led growth and expansionary fiscal policy haven't prevented inflation from surprising to the downside in September.

The cut in October may add to speculation around a similar move in November, especially as the next November macroeconomic projection is likely to point to inflation running close to the central bank target over the medium term, and below the path outlined in the July projection. Glapinski's press conference should offer more clarity on the monetary outlook, but the fact that the press release notes improvement in the inflationary outlook only in the short term, suggests that the governor may be unwilling to signal further cuts in the coming months.

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