

## The door to a potential rate cut in Poland in October is still open

National Bank of Poland governor Glapiński's press conference confirmed that falling inflation was the main rationale behind the September rate cut. However, the Council remains cautious about further monetary policy moves. Still, the governor didn't rule out an October cut if energy price freezes are extended



In his press conference, National Bank of Poland governor Glapiński indicated that monetary policy will be determined by the conflict in Iran

### Inflation lower, but the central bank fears a bounceback

During the press conference, National Bank of Poland governor Adam Glapiński stated that inflation had declined and was now between the NBP's target midpoint (2.5%) and the upper bound of the tolerance band (3.5%).

However, much of the press conference and a lot of the governor's remarks suggested that the current decline in inflation is seen as temporary and fragile, with the NBP's main goal now being to prevent a rebound. The governor continues to rely on a vague argument that inflation could spike due to rising energy prices, which the NBP includes in its baseline scenario based on current legislation. This could push inflation back above the upper limit of the target band. Other risks to maintaining low inflation include elevated core inflation and concerns over service price dynamics.

This marks a shift in tone compared to the July meeting. In our view, recent domestic and international data have not significantly altered the inflation risk balance. Our estimates suggest that inflation will remain close to target in the coming quarters.

## **Mid-term inflation risks remains the same, but fiscal policy concerns have grown significantly**

In line with the post-meeting press release, governor Glapiński listed the main inflation risks as: (1) fiscal policy, (2) economic conditions, (3) the labour market, and (4) uncertainty around energy prices. We think this order was no coincidence. Unsurprisingly, Adam Glapiński placed loose fiscal policy at the top of the list. In his view, fiscal expansion is not justified by the current economic conditions or defence spending, and the economy does not require additional stimulus. He even described the budget as “extravagant,” citing a deficit of 6.9% of GDP in 2025 and a deficit of 6.5% of GDP in 2026 that is planned in the draft budget bill.

The NBP governor emphasised that loose fiscal policy causes rapid debt accumulation, with increased military spending accounting for one-fifth of the increase in public debt since 2022. High debt translates into rising debt servicing costs (interest), which amount to 2.5% of GDP. Adam Glapiński clearly stated that loose fiscal policy limits the scope for interest rate cuts.

## **Monetary policy outlook: more cautious approach than in July, but the path to further cuts has not been closed**

Unsurprisingly, the governor's rhetoric has shifted to a less willing stance on rate cuts than he presented in July. At that time, he said that the projection indicated that inflation would be in line with the target in the medium term. He also pointed out that “fortunately, in Poland we have a cycle where rates are falling and will continue to fall, provided there are no spikes in inflation, and so far I do not see any”.

In September, the governor's disinflationary optimism declined, as indicated by numerous comments that the MPC fears inflation will rise in the future, which translates into the Council's caution regarding further decisions. He also pointed out that after the recent inflationary shocks, the MPC's actions must be characterised by exceptional caution.

We get the impression that the governor mentions many inflationary risks, but still leaves the door open for cuts. If the MPC's fears do not materialise and the data show that inflation remains low, further cuts may follow – as in the case of the famous energy price freeze.

Most of the NBP President's press conference was held in the spirit of the Council's reluctance to cut interest rates further and suggested a pause in October. However, at the end, in response to a question about electricity prices, Adam Glapiński admitted that if the energy price freeze were to be extended, this would probably give room for interest rate cuts in October.

Another argument for further cuts, albeit at a slower pace than we had previously assumed, is the NBP governor's remark that despite the cuts made this year, the NBP interest rate is still high in real terms (the second highest in the region).

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