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## Poland Economics

### Hawkish message, but doors to rate cuts still open

#### OUR TAKE

NBP governor spent a large part of the monthly press conference emphasizing factors that limit the central bank's ability to cut rates. However, he signaled also the MPC 'would like to' continue with gradual interest cuts and pointed to the decision about energy price caps as something that would allow for such a move. We expect the NBP to lower the policy rate by 25-50 bps in 4Q25 and we see the terminal rate at around 3.75% (vs. 4.75% now).

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The three factors constraining the central bank's ability to cut rates are: fiscal policy, economic situation and the labour market.

Governor Glapiński devoted most time to the fiscal policy, emphasising very high fiscal deficit and rising public debt. Given that the military spending accounts for only one fifth of the overall rise in budget spending the central bank is concerned that the accommodative fiscal policy can create inflation risks. NBP head highlighted also that the economic growth remained strong and was driven by private consumption. Although wages have slowed in recent months the NBP believes 8% growth is still too strong to be consistent with price stability.

The overall tone of the press conference was relatively hawkish, but after the initial rise FRA rates eventually fell after NBP governor's comments about energy price freeze. A. Glapinski said that if the government was to freeze energy prices this would open room for rate cuts in the following months. We think chances of energy prices being frozen in 4Q are probably higher than 50% but even in the alternative scenario the rise in energy prices would be probably limited, adding around 0.2pp to CPI in 4Q.

**Monetary policy implications** – Current level of the policy rate (4.75%) remains significantly above the current inflation (2.9% YoY). With the neutral rate in Poland probably around 1% in real terms this leaves space for more monetary easing in the coming months. In such a situation the larger than previously expected deficit is unlikely to stop the MPC from further rate cuts, though we believe it will likely affect the pace of easing (slower cuts, i.e. by 25 bps, spread over many months) or the level of the terminal rate. In our base case we expect another 25 bps cut in November and three more cuts in first months of 2026, bringing the policy rate to 3.75%. By that time the central bank will have delivered cumulative 200 bps of monetary easing and the MPC will be less willing to continue with rate cuts, fearing that additional easing could lead to a rebound in inflation in 2027. Furthermore, if the government freezes energy prices in 4Q25 this might allow the MPC to cut rates a bit faster (in both October and November) vs. our base case.

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