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Poland Economics View

Hawkish NBP pivot – Revising terminal rate forecast

OUR TAKE

Today's press conference marks a meaningful shift in central bank's rhetoric. Although the near-term inflation outlook is likely to be better than previously assumed the central bank is now worried about medium term risks, including accomodative fiscal policy. We are revising our NBP scenario as we now see the terminal rate at around 4.25% (i.e. 75 bps higher than previously assumed).

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Today's press conference of NBP governor was very different from those in April and May. Not only was it much shorter than usual, the message conveyed by central bank's head was also more hawkish than in recent months. While governor Glapinski acknowledged the improved near-term inflation outlook, in our view he put more emphasis on medium term risks, in particular: uncertain fiscal outlook, stronger than expected activity, acceleration in wage growth. The central bank wants to be data driven and does not want to pre-commit to any particular interest rate path.

In our view the shift in NBP governor's rhetoric is not surprising. In the wake of the presidential election we highlighted the risk that the new fiscal outlook can have meaningful implications for the central bank's readiness to cut rates. Admittedly inflation remains in a downward trend that is driven not only by slowdown in energy prices, but also by moderating core inflation momentum. This means the MPC may be ready to cut rates in the coming months to avoid significant widening of the real rate. However, even though the near-term inflation outlook seems better than we and the consensus assumed only 3 months ago, the medium term outlook (1-2 year) appears much more uncertain. While the government's plan officially assumes fiscal adjustment by 1 pp annually starting from 2026, we think such a scenario looks increasingly unlikely in the new post-election reality. Indeed, in recent weeks president-elect Nawrocki has clearly signaled his opposition towards any new tax hikes, while the government's appetite for spending cuts is likely to be low in face of approaching 2027 parliamentary elections. In our view this means that instead of 1 pp of annual tightening (which would lower GDP growth by 0.4 pp), the government will probably deliver only ~0.3 pp of fiscal adjustment annually (coming from the 'bracket creep'). Furthermore, it can't be ruled out that the government could actually add even some fiscal stimulus ahead of 2027 elections, thus using the fiscal space created by the national escape clause.

Taking into account much more expansionary fiscal policy we expect the NBP to become more cautious. In such a scenario the MPC might end up cutting rates to around 4.0-4.5%, vs our previous terminal rate scenario of 3.5%. We believe the timing of future rate moves is highly uncertain and although we stick to the view that the next cut can be delivered in July (when the MPC gets an update to the macro projection), we would not be surprised if the MPC decided to postpone this move even further. Tighter monetary and fiscal policy are likely to result in higher yields/rates, but this can also be supportive for PLN.

Figure 1. Poland – Interest rate forecasts

	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26	Oct-26	Nov-26	Dec-26
NBP reference rate - new scenario	5.25	5.00	5.00	4.75	4.75	4.50	4.50	4.50	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Previous scenario	5.25	5.00	5.00	4.75	4.75	4.50	4.50	4.25	4.25	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50

Source: Citi Handlowy forecasts, Statistics Poland, National Bank of Poland

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