

02 July 2025

Economic Comment

MPC surprised by cutting rates by 25bp

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Today the MPC cut rates by 25bp surprising the market (yet some market participants were betting for a cut) and bringing the reference rate down to 5.00%. The MPC cited the expected decline of CPI below upper limit of tolerance band around the NBP target as the reason to cut rates, but other fragments of the statement did not change much. The MPC still claims that further decisions will depend on the incoming data. Fiscal policy was again named as one of the key risk factors, but this time on the top of the list ahead of the demand pressure, developments in the labour market and the level of administered energy prices.

In line with expectations, NBP staff projections were revised down as regards CPI: 2025 to 4.0% from 4.9% in March, 2026 to 3.1% from 3.4%. We guess that this downward revision was mostly triggered by the government decision on energy prices (cut in natural gas prices, extension of maximum electricity prices). In 2027 the centre point of the projection is below the target. Expectations about the GDP growth remained pretty stable, with 3.6% expected in 2025 (vs. 3.7% in March), 3.1% in 2026 (2.9%).

Tomorrow the NBP president Adam Glapiński is scheduled to make his speech. We will adjust our expectations on rates after his conference, as today's decision and statement do not give much visibility whether the MPC wants to start a cycle or just decided to increase its adjustment.

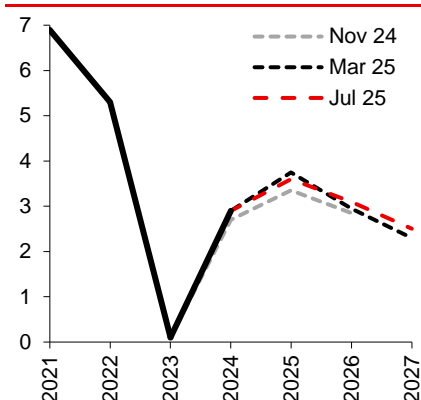
Inflation and GDP projections in subsequent Inflation reports

Middle points of GDP and CPI growth paths and width of 50-percent probability ranges.

	GDP growth			
	Jul 24	Nov 24	Mar 25	Jul 25
2024	3.00 (±0.70)	2.70 (±0.4)	-	-
2025	3.80 (±1.00)	3.35 (±0.95)	3.75 (±0.85)	3.60 (±0.7)
2026	3.10 (±1.20)	2.85 (±1.1)	2.95 (±1.05)	3.10 (±1.0)
2027	-	-	2.30 (±1.2)	2.50 (±1.2)
	CPI inflation			
	Jul 24	Nov 24	Mar 25	Jul 25
2024	3.70 (±0.60)	3.65 (±0.05)	-	-
2025	5.25 (±1.35)	5.40 (±1.2)	4.90 (±0.8)	3.95 (±0.45)
2026	2.80 (±1.50)	2.75 (±1.35)	3.40 (±1.4)	3.10 (±1.4)
2027	-	-	2.50 (±1.4)	2.35 (±1.45)

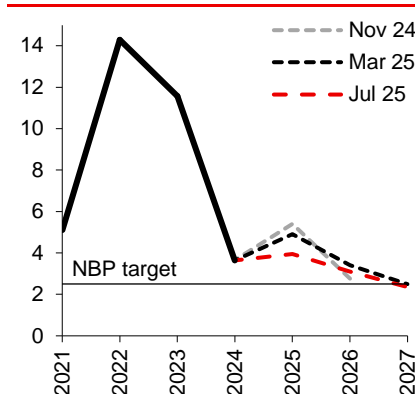
Source: NBP, Santander

GDP growth according to NBP projections
(projection mid-points)



Source: NBP, Santander

CPI growth according to NBP projections
(projection mid-points)



Source: NBP, Santander

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MPC post-meeting statement (changes vs. June statement):

In the euro area, the annual GDP growth in 2025 Q1 amounted to 1.5%, i.e. was close to its long-term average. Meanwhile, in the United States the annual GDP growth declined below the long-term average, amounting to 2.0% in 2025 Q1. In light of incoming data, in 2025 Q2 the annual activity growth in both economies was likely similar to that recorded in Q1. At the same time, inflation in these economies is running at levels consistent with the central banks' inflation targets. The outlook for global activity and inflation is subject to uncertainty, related, among others, to changes in trade policies.
In Poland, in May 2025, annual growth rates of retail sales and industrial output were positive, while construction and assembly production declined again in annual terms. In the labour market, unemployment remains low, and the number of working persons continues to be high, although employment in the enterprise sector in May 2025 was lower than a year earlier. Annual wage growth in the national economy slowed down in 2025 Q1. Also, data from the enterprise sector indicate the slowdown in the wage growth.
According to the Statistics Poland flash estimate, annual CPI inflation in June 2025 amounted to 4.1% (compared to 4.0% in May 2025). Considering the Statistics Poland data, it can be estimated that in June 2025 also inflation net of food and energy prices was close to that recorded in May, amid services price growth remaining elevated. The earlier increases in the administered energy prices together with continuously heightened annual growth in prices of food and non-alcoholic beverages translate into still elevated level of CPI inflation.
The Council became acquainted with the results of the July projection of inflation and GDP based on the NECMOD model. In line with the projection, prepared under the assumption of unchanged NBP interest rates and taking into account data available until 9 June 2025, there is a 50-percent probability that the annual price growth will be in the range of 3.5 – 4.4% in 2025 (against 4.1 – 5.7% in the March 2025 projection), 1.7 – 4.5% in 2026 (compared to 2.0 – 4.8%) and 0.9 – 3.8% in 2027 (compared to 1.1 – 3.9%). At the same time, the annual GDP growth – according to the projection – will be with a 50-percent probability in the range of 2.9 – 4.3% in 2025 (against 2.9 – 4.6% in the March 2025 projection), 2.1 – 4.1% in 2026 (compared to 1.9 – 4.0%) and 1.3 – 3.7% in 2027 (compared to 1.1 – 3.5%).
According to the available forecasts the CPI inflation in the coming months will fall below the upper bound for deviations of the NBP inflation target. Taking this into account, in the Council's assessment, it became justified to adjust the level of the NBP interest rates.
Further decisions of the Council will depend on incoming information regarding prospects for inflation and economic activity. Fiscal policy stance, developments in demand pressure and situation in the labour market in subsequent quarters, as well as the level of administered energy prices, remain an uncertainty factor. Uncertainty stems also from inflation developments abroad, following, among others, from changes in trade policies of major economies.
NBP will continue to take all necessary actions in order to ensure macroeconomic and financial stability, including above all to bring inflation down sustainably to the NBP inflation target in the medium term. NBP may intervene in the foreign exchange market.

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