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Economic Comment

This is not a cycle, but rates likely to go down further

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The NBP Governor said at today's conference that the MPC decided to cut interest rates due to better-than-expected inflation and wage data, despite the fact that earlier many Council members were leaning towards a pause in July. At the same time, he said that this was not the beginning of a policy easing cycle, although the MPC could cut rates further if the data favoured this, i.e. inflation was falling further. According to the NBP Governor, if inflation permanently goes down to the target, rates will be cut 'to a very low level' and he specifically mentioned 3% as the possible target level. He also continued to emphasise the four main sources of risk to inflation forecasts as possible obstacles to further easing: loose fiscal policy, an improving economy, high wage growth and volatility in energy prices.

We think that Adam Glapinski sounded more dovish than before and expressed willingness to adjust rates further in line with inflation readings. The latest NBP projection already indicates that inflation is moving permanently towards the inflation target. In our view, CPI inflation could fall below 3% in July, which could again prompt the MPC to adjust interest rates at its next meeting in September. We assume that by the end of the year the MPC will cut rates by 50 points, 25 points each in September and November. Given that we expect GDP to accelerate in 2026, we think that that the monetary easing is more likely to stop at 4% for the reference rate, rather than go down to 3%.

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