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Economic Comment

Inflation is not fully tamed

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The tone of today's conference by the President of the National Bank of Poland was in our opinion more hawkish than in previous months, although this was more evident in the first part than at the end. At the very beginning, Adam Glapiński drew attention to the risk to inflation resulting from the future implementation of the European ETS2 system, stating that the central bank is not taking it into account in its decisions for the time being, but that this will change soon. He then emphasised several times that inflation had not been tamed for good, but was merely 'lurking', and that the Monetary Policy Council would certainly not allow it to become entrenched. Glapiński welcomed the decline in CPI to 2.8% y/y in August, but also pointed out that core inflation is still above CPI, partly due to service prices, adding that if core inflation stabilises near 3% y/y in the coming quarters (which is our baseline scenario), the risk of CPI deviating from its target will be higher. He presented the NBP's inflation forecast, according to which CPI will rise to 3.7% in December, under the assumption that the energy price freeze expires after September (in our opinion, this is unlikely to happen – the current regulations will be extended). Apart from energy prices, Glapiński mentioned three main risks to the inflation outlook: 1) loose fiscal policy, 2) good economic conditions, 3) the situation on the labour market. Fiscal policy was considered the most important of these risks, having a strong pro-inflationary impact and limiting the room for monetary policy easing. Glapiński repeatedly stated that the MPC wants to avoid a situation where excessive interest rate cuts would require a policy reversal within a few quarters (citing the Czech central bank as an example). He refused to make a clear statement on further monetary policy decisions, saying that they would depend on data, but at the end of the conference he admitted that positive news about no increase in electricity prices in Q4 and/or a further slowdown in wage growth would increase the chances of further monetary policy easing.

In summary, we are not changing our interest rate scenario: we expect one more 25 bp rate cut in November, when the new NBP projection will confirm the scenario of a moderate decline in inflation in the coming quarters, followed by two more cuts in early 2026, after CPI indeed falls below 3% again. At the same time, we believe that the overall tone of the conference confirms our view that the NBP's terminal rate will be closer to 4% than to 3.5%. The latter level was reached a few months ago by the Czech National Bank (CNB), which President Glapiński pointed to several times today as an example of a situation that the Council would like to avoid, i.e. excessive monetary policy easing, which may require correction. An additional interesting fact in this context is that in its latest iteration of inflation forecasts, the CNB took into account the possible impact of ETS2, which pushed up the inflation path in 2027 and, with it, the implied interest rate path.

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