

09 October 2025

Economic Comment

There is still room for cuts

Piotr Bielski, tel. +48 691 393 119, piotr.bielski@santander.pl

NBP governor Adam Glapiński said during today's conference that there is still room to ease monetary policy in Poland, although not great, and that the next interest rate cuts will be gradual, in 25bp steps. He refused to give clear guidance for November, saying that the MPC decides on ad-hoc basis, watching the current data, and nothing can be pre-committed. Glapiński pointed to 4.00% as the potential target level for the NBP reference rate and said that once the rate reaches this level, the Council will decide whether there is still room to ease further.

As in previous months, he listed factors increasing worries about the inflation outlook. The list included:

- 1) No freeze of energy prices in 2026. Glapiński said that if energy prices in 2026 remain at the level implied by current tariffs, it may add 0.3-0.4pp to CPI. We do not expect this scenario to materialise, as we expect that the new energy tariffs for 2026 (yet to be approved) will not imply a rise in electricity costs for households.
- 2) Looming ETS2 which, according to NBP's estimate, may add 2pp to CPI already in 2027. This effect has not been included in the inflation projection until now. The question is whether it will be in November's update, as Glapiński said the central bank has to start taking this factor into account.
- 3) Quickly rising demand in the economy, which does not support disinflation.
- 4) Wage growth, which is slowing but is still excessively high and inflationary.
- 5) Exceptionally loose fiscal policy, which is constraining room for monetary easing.

Referring to the latter, Glapiński emphasised that narrowing room for rate cuts does not mean the door is shut completely, and added that most MPC members still see possibility to cut. However, those cuts have to be measured, to avoid necessity to start hiking again.

Summing up, we feel safe with our assumption of a terminal NBP rate at 4.00%. The question is how quickly we will get there. Glapiński virtually excluded a rate cut in December (saying it would be against a tradition), so the next -25pb move will happen either in November or in January. Given the declared data-dependence of the MPC, we think that the more likely scenario is that they pause in November, as we expect the next set of economic data to be very strong – CPI is likely to bounce back above 3% y/y according to our forecast, while the real activity data (production, retail sales, wages) are very probable to rebound visibly in September, partly due to a low base and calendar effects. The new inflation projection to be released in November will probably take into account the effect of last three rate cuts (in July, September, October) and lower assumptions about energy prices – potentially leading to a slightly lower CPI trajectory in the short run and slightly higher at the end of the horizon. Overall, it may not provide enough arguments for another rate cut before the year-end, especially given that Glapiński stressed today the already implemented cuts by 125bp are viewed as a major policy easing within the NBP.

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Bartosz Białas +48 517 881 807
Adrian Domitrz +48 571 664 004
Marcin Łuziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857