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POLAND

National Bank of Poland preview: No cuts, but no hikes either

We expect the Polish central bank to keep policy rates unchanged in September as renewed tensions in the Middle East and higher oil prices give no room for policy easing. NBP Governor Adam Glapiński struck a dovish tone in July and was ready to consider rate cuts after the summer; subsequent developments suggest that his inflation outlook was too optimistic

We're expecting NBP Governor Adam Glapiński to tread more cautiously after tomorrow's meeting than in July

National Bank of Poland (NBP) Governor Adam Glapiński adopted a surprisingly dovish stance at the press conference following the July policy meeting, but this was probably the heat of the moment rather than a lasting shift in policy sentiment. The flash estimate of June inflation came in at 2.5%, exactly in line with the NBP's target, while the cut-off date for the July macroeconomic projection fell when the memorandum of understanding between the US and Iran was still in force, supporting a relatively benign inflation outlook in the NBP's projection.

Yet the governor's suggestions of submitting a motion for a rate cut after the summer were delivered after tensions in the Middle East had intensified again, increasing uncertainty around the region's outlook. In this context, he may have gotten ahead of the Monetary Policy Council;

other Council members presented a more cautious tone in the following weeks.

Despite the easing bias signalled in July, our assessment has remained unchanged, as we have been less optimistic about the inflation outlook. We continue to expect policy rates to remain unchanged in September and throughout the remainder of the year. Headline inflation increased in both July and August and is now very close to the upper bound of the NBP's target range of 2.5% +/- 1 percentage point. Moreover, CPI may break 3.5% year-on-year and even temporarily hit 4%, due to Brent crude approaching US$100/bbl once again and retail fuel prices following that trend in September. The authorities abandoned the temporary reduction in the VAT rate on fuels, which should drive retail fuel prices and CPI up in September, if not for longer.

In our view, inflation risks have increased again as a result of rising energy prices. While there is still little evidence of broader inflationary pressures or meaningful second-round effects so far, and food price deflation continues to help contain overall inflation, the risk remains that higher energy costs could lead to increases in regulated energy prices from the beginning of 2027. We see upside risk for natural gas, as European gas prices have started to edge higher amid relatively low storage levels ahead of the heating season.

To sum up, we expect the NBP to keep rates unchanged in September, with Glapiński likely to adopt a more cautious tone than in July, in light of renewed geopolitical tensions. Moreover, risks to our baseline scenario of monetary easing in mid-2027 are increasing, as higher energy prices may slow the return of inflation to target and prevent rate cuts. At the same time, we do not share the market's view, which currently prices in around 75bp of rate hikes over the next 12 months. In our view, interest rates should remain unchanged for at least the next two quarters. Nevertheless, geopolitical developments are moving in an unfavourable direction for Poland's inflation outlook and, consequently, for monetary policy prospects.

Author

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

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