

Falling core inflation and softer services prices open door to more Polish rate cuts

October inflation was confirmed at 2.8%YoY while core inflation likely moderated to 2.9%YoY from 3.2%YoY in September, driven by softer services prices as businesses face demand constraints. Disinflation is now reaching the services sector, which is a positive sign for monetary policy and gives room for more rate cuts in the coming quarters



October CPI inflation confirmed at 2.8%YoY

The Polish StatOffice confirmed that consumer inflation moderated to 2.8%YoY in October, down from 2.9%YoY in the previous month. Prices of goods went up by 1.7%YoY, while services prices increased by 5.6%YoY compared to 1.9%YoY and 5.8%YoY, respectively, in the previous month.

Stability in food and beverages prices (0.0%MoM) was facilitated by declines in prices of meat (-0.3%MoM) and fruits (-1.5%MoM). The increase in housing energy prices (+0.6%MoM) was linked to more expensive heating (+2.5%MoM).

Core inflation down and easing services prices

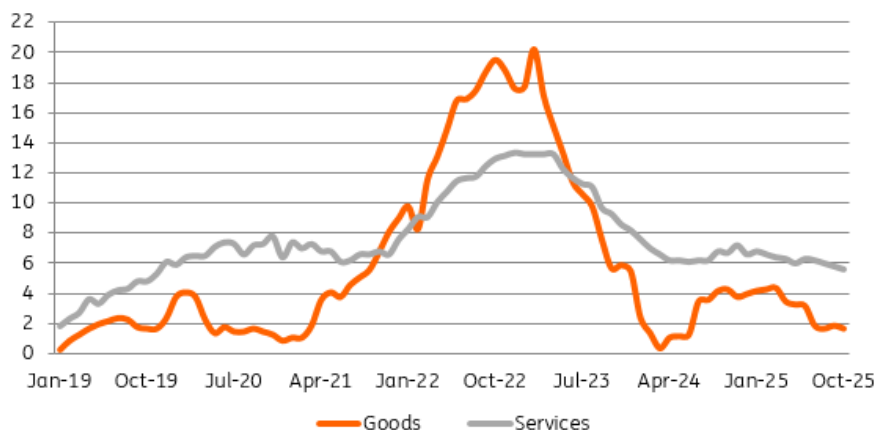
Core prices were an important disinflationary factor in October. We estimate that core inflation

excluding food and energy prices declined to 2.9%YoY from 3.2%YoY in the previous two months, thanks to cheaper tourism (-2.8%MoM) and insurance services.

Given previous increases in services prices, some suppliers might be forced to cut prices in response to demand barriers. The fact that disinflationary trends are increasingly visible in services prices is a positive sign for monetary policymakers.

Services inflation finally begins to ease

CPI, %YoY



Source: GUS

Favourable inflation outlook and disinflationary impact of Chinese imports

Headline inflation is gradually creeping towards the National Bank of Poland (NBP) target of 2.5% (+/- 1 percentage point), and its prospects are looking good. Consumers do not face the risk of a significant jump in electricity prices, food prices are being curbed by favourable harvests and global prices of energy commodities remain stable.

What is more, cheap imports from Asia after increases in American import tariffs on China are exerting downward pressure on core goods prices.

In its November presentation on the latest macroeconomic projections, the NBP dedicated significant attention to imported disinflation from Asia – particularly China – sharing findings from its in-depth research. It is currently an important topic for assessing price tendencies that have already been rising for some time. Hence, we are satisfied that the central bank has taken into account the impact of imported disinflation in its assessment of inflationary trends.

On top of all that, we have noticed slowing wage growth that should gradually translate into a slowdown in services inflation.

Monetary Policy Council still has room to cut interest rates

Both our forecasts and the November NBP projections indicate that CPI inflation should return towards the central bank target in a sustainable manner in the coming quarters. That means that the Monetary Policy Council (MPC) can continue easing its policy, and another 25bp rate cut

cannot be ruled out in December.

We expect policymakers to adjust monetary parameters to the new inflationary environment rather swiftly. The majority of rate cuts are probably already behind us, and 3.50% is likely the middle point of the bound for the target rate that we believe will be achieved in the first half of 2026.

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