

## Polish inflation relief opens the door to potential May rate cut

Final March CPI data indicates that Polish headline inflation ceased growing in this year's first quarter, and core inflation has started to moderate. The outlook for the rest of the year is improving, but US tariffs are posing threats to global growth and downside risks to price growth in Europe. We see monetary easing in May, with a 50bp rate cut on the table



President of the National Bank of Poland, Adam Glapiński

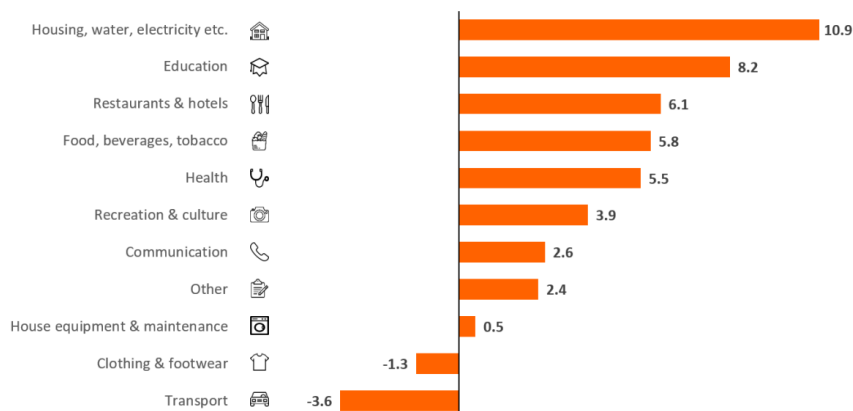
### March inflation confirmed at 4.9% YoY

Poland's StatOffice has confirmed the March CPI inflation estimate at 4.9% year-on-year. Prices of goods increased by 4.4% YoY, and services prices went up by 6.4% YoY, compared to increases of 4.3% and 6.6% respectively in February. Concerns that the tobacco excise duty hike would sharply raise inflation in March did not materialise. The increase in prices in the alcoholic beverages and tobacco products category was spread over time, and elevated month-on-month price increases have been observed since the beginning of the year. We'd also make note of the moderate price increase in restaurants and hotels (0.4% MoM) and the significant price drop in the recreation and culture category (-2.0% MoM), where foreign tourism services (-8.4% MoM) and electronic equipment (-1.6% MoM) became significantly cheaper. We estimate that core inflation, excluding

food and energy prices, was similar to February's level, i.e., around 3.6% YoY.

## Inflationary pressure is easing gradually

Change in consumer prices in March 2025, %YoY



Source: GUS.

## Further decline in inflation ahead

We expect April headline inflation to moderate towards some 4.3% YoY. While food prices may be driven up by Easter shopping, the monthly increase will be lower than in April 2024, when VAT on food was reinstated. That means we should expect lower annual price dynamics in this category. We are also still observing declines in crude oil prices, which gives ground for further reductions in fuel prices at petrol stations. Another significant drop in annual inflation is likely in July (to around 3% YoY), when we will enter a higher reference base as energy prices jumped up in mid-2024 after their partial deregulation.

## Interest rates to go down as soon as May

Detailed CPI data for March confirmed improving inflation prospects. The March inflation peak turned out to be lower than earlier expectations, and the first quarter of 2025 brought a stabilisation in inflation below 5% YoY. What's more, inflation saw a downward trend and is currently close to the upper limit of deviations from the National Bank of Poland (NBP) target. We maintain our forecast that the fourth quarter of 2025 will not bring an increase in energy prices for households, and the government's planned delay in implementing updated energy tariffs only reinforces this scenario. Our forecasts assume that by the end of the year, the main consumer inflation indicator (CPI) may fall below 3% YoY.

Inflation trends show that there is room for monetary easing. In May, the Monetary Policy Council (MPC) will discuss to what extent it should adjust the restrictiveness of its policy, and it cannot be ruled out that this will result in a decision to cut rates by 50bp. At present, it is unclear whether the Council will opt for a decisive adjustment of interest rates in two to three steps, or whether we will see a slower and extended easing cycle. We lean more towards the latter scenario and believe that the MPC may reduce interest rates by 125bp in 2025 and by another 75bp in 2026, bringing the reference rate down to 3.75%.

## Author

### Rafal Benecki

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

### Adam Antoniak

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

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