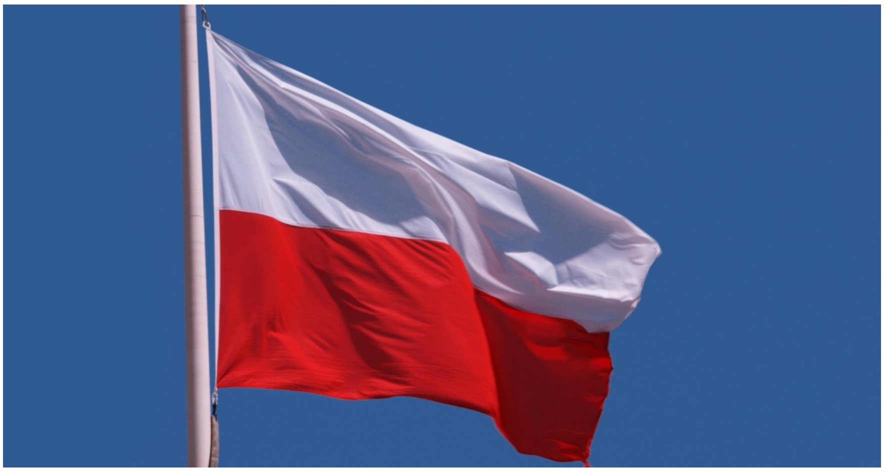
July projections from Poland's central bank signal flat rates through 2024

The National Bank of Poland has now presented details of its new inflation projections. In our view, these support flat rates this year but not necessarily into 2025. This is because core inflation pressure is set to be lower than projected in March, and electricity price adjustments in early 2025 might be smaller than the NBP's assumptions



Poland's growth forecast for the second quarter of this year was revised from 3.6% year-on-year (from March projections) to 2.9% YoY due to lower investments and contribution of inventories. In contrast, the dynamics of consumption rose. The latest projection forecasts a 0.6% YoY decline in employment in 2024 (vs. a 0.3% YoY increase in the March projection) and an increase in the unemployment rate to 3.2% in the fourth quarter of this year (from 2.7% in the March projection).

The biggest surprise is the higher level of wages in the July projection relative to that in March (from 11.5% to 12.9% in 2024; from 7.1 to 8.6% in 2025; and from 6.7 to 6.8% in 2026), coupled with a downward revision in the path of core inflation (from 4.7% to 4.2% in 2024; from 4.5% to 3.8% in 2025; and from 4.1% to 3.5% in 2026). Given the strong relationship between services inflation and wage dynamics, this means that the National Bank of Poland has made a very large downward revision in its projections for the inflation of goods included in core inflation, due to expectations for economic activity and global disinflation.

According to the July projection, core inflation should remain at the current level until the end of

2025, and then begin a gradual decline to 3.3% by the end of the projection horizon. CPI inflation is to rise to 6.3% in the firsr quarter of next year due to VAT increases on food and the release of energy prices, and then return to the 2.5% target in the fourth quarter of 2026. In our view, with the wage dynamics expected from the NBP, the path for core inflation is slightly underestimated and the impact of the release of electricity prices in January 2025 on CPI (1.1pp), is overestimated by about 0.5pp.

The NBP's assumptions imply an increase of almost 20% in energy prices on the bill. The current law introduced a cap on energy prices for households in the second half of 2024 at PLN500/MWh. Based on market trends in recent months and forecasts for fuel and emission allowance prices, we do not assume significant changes in wholesale electricity prices in the coming months. The average price for the baseload contract was PLN390 in January-July this year. Forward contracts throughout 2025 have remained very stable this year at an average of PLN464 this year (today: PLN466).

In conclusion, there is a high risk that core inflation will be at a higher level than projected, especially if wage growth remains strong. On the other hand, the path for energy prices may be at a slightly lower level.

Author

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl