

## No downside surprise for Polish CPI

June CPI inflation came in at 2.6% year-on-year vs the consensus of 2.5%. So no surprise to the downside this time. CPI should rebound further in the coming months due to regulated prices, the statistical base and persistent core inflation. We see no scope for rate cuts this year, but possibly in the second quarter of next year



A shopping mall in Warsaw, Poland

Food prices rose 0.7% month-on-month, well above estimates. High temperatures possibly led to a seasonal decline in prices of some fruit products earlier than usual, while in June there was a seasonal rebound that was not present a year ago. Also, a gradual pass-through of the VAT rate hike on food to retail prices had an impact on price growth, but the magnitude of this was relatively small in June.

Core inflation recorded another month of lower growth (month-on-month, seasonal adjusted) compared to 1Q24. On a year-on-year basis, we estimate it fell to 3.7% vs. 3.8% in May, in line with our expectations.

In our view, CPI inflation should rebound further in the coming months. The new gas and electricity tariffs announced yesterday will add 1.3-1.4ppt to the CPI, and thus July inflation should settle around 4% YoY, again above the upper band of the National Bank of Poland's target. We estimate that it will reach around 4.8% YoY by the end of the year.

The expected jump in CPI inflation from the March low (2.0% YoY) is not just due to the unfreezing of utility prices. It also reflects less favourable statistical base effects (prices in 2H23 were falling) and persistent core inflation, which refuses to fall below 3.5% YoY despite a recession in consumption that has lasted almost a year! High and persistent services inflation, linked to high nominal wage dynamics should remain a key challenge for monetary policy. Even if the monthly dynamics in core inflation fail to respond to the ongoing recovery in domestic demand and are on a similar trajectory as 2Q24 (in seasonally adjusted terms), core inflation in 2H24 will remain around 4% YoY. With that in place, CPI is far from moving down to the NBP target.

Therefore, we expect the NBP to keep rates unchanged until the end of 2024. Cuts are possible in 2Q25, but this should be a rather short and shallow monetary easing cycle.

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