

## Polish CPI inflation falls; a rate cut is surely coming

The decline in Polish CPI inflation is set to continue, supported by a rapid unwinding of external supply shocks. And that should allow the central bank to cut rates by 50-75bp in 2023. However, the slow decline in core inflation compared with the rest of the region suggests that the second stage of disinflation will be difficult. (RESEND WITH CORRECTION)



Inflation is falling in Poland. Pictured: a supermarket in Gdansk

Polish CPI inflation for July came in at 10.8% YoY, compared to 11.5% YoY the previous month. This is what's behind that 0.7pp:

- **Seasonal falls in food prices**, which subtracted 0.6pp from annual CPI inflation
- **Energy**, which subtracted 0.2pp
- **Base inflation** was slightly below our and market expectations at 10.6% YoY, but subtracted only 0.2pp from CPI
- **Fuels** added 0.2pp to CPI

Compared to the CPI peak in February (18.4% YoY), CPI inflation has already fallen 7.6pp. This

reduction in price pressures is mainly due to the decline in external supply shocks. The biggest contributors to this change were fuels (subtracting as much as 3pp from the CPI since February), food prices (subtracting 2.3pp), and energy (-1.7pp). In contrast, core inflation, which is the most important from the central bank's point of view, had by far the smallest impact as it only subtracted 0.6pp.

Importantly, international comparisons within the central European region also show that disinflation in Poland has the least sustainable basis, as since the peak, core inflation has already decreased by a third in Hungary (8.1pp), about 40% in the Czech Republic (7.2pp), but in Poland only by one-sixth (1.8pp).

Why do we expect a rate cut after the holidays, possibly even in September?

According to our current assumptions, CPI inflation could be close to 10% Year-on-Year in August, but it's unlikely to be lower. We will provide a more precise estimate at the end of August. Single-digit inflation (or the certainty that it will be achieved soon) is a condition for the NBP President to cut rates.

Even if August's inflation rate were still in double digits (around 10% YoY), we believe that the NBP will decide to cut rates as early as September. We see at least two reasons for this:

1. The course of inflation in the second half of this year will be either similar to or slightly lower than that indicated by the NBP's July projection (10.3% YoY in 3Q23 and 7.8% Y/Y in 4Q23), and that's where the MPC will be content that the expected disinflation scenario has run its course.
2. Data on economic activity in Poland and Europe suggest a postponement of the economic rebound until the fourth quarter of this year, so the state of the economy in 2H23 will still be weak.

In the short term, the MPC's plans are supported by strong disinflationary trends in global supply chains, which result in a large drop in inflation expectations of companies, indicated, among other things, by the latest National Bank of Poland's economic survey. These trends are still stronger than the rebound in oil and wheat prices. Therefore, the NBP will cut rates by 50-75bp this year, and the easing cycle may continue into 2024.

However, we still point out that the beginning of disinflation, when supply shocks reverse and CPI falls to single-digit levels, is the easier stage in the fight against inflation. The second stage is more difficult and socially costly; that's when inflation has to be brought down to the 2.5% YoY target. And here, the slow decline in core inflation in Poland compared to the region is concerning.

This may suggest that the restrictiveness of the policy mix in Poland is not sufficient. In addition, we are now seeing a rapid improvement in disposable income associated with fiscal loosening. So, rate cuts currently combined with new spending on the fiscal side and increases in the minimum wage will mean it will take a long time for inflation to return to target. Once the current disinflationary impact of the receding supply shocks is exhausted, the fight against inflation will be more difficult.

## Author

### Rafal Benecki

Chief Economist, Poland

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

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.