

## Poland set to cut interest rates in September despite double-digit inflation

Even though latest figures show Poland's inflation is still in double digits, we think the country's central bank will start its easing cycle in September. CPI fell to 10.1% in August from 10.8% in July, Year-on-Year. It reflects lower food and energy prices. Core inflation's drop came in third place; we estimate that fell to 10% from 10.6%



A supermarket in Krakow

Polish headline CPI inflation fell from 10.8% YoY to 10.1% YoY in August, marginally above expectations (*ING 10.0% YoY and consensus 9.9% YoY; the forecast range was 9.7 to 10.6%*). Food price dynamics subtracted 0.8pp from the CPI, energy carriers 0.3pp and core inflation only 0.3pp. In contrast, fuel prices rose in August and added 0.6pp to the headline figure.

The release of double-digit CPI means that one of the conditions for easing, which the National Bank of Poland Governor mentioned, has not been met. However, we still believe the MPC will cut rates in September. Here's why:

1. We are on the path to single-digit inflation in September; the data will be published after the September MPC meeting.
2. The CPI path in 2H23 should be either close to or slightly lower than the NBP's July

- projection. The MPC should consider this as a disinflation scenario materialising.
3. The pace of GDP growth in 2Q23 was lower than the NBP's projection, and data on economic activity in Poland and Europe suggests pushing back the economic rebound instead to 4Q23, so the state of the economy in the second half of this year will still be weak.
  4. In the short term, monetary easing is supported by strong disinflationary trends in global supply chains, resulting in a large drop in companies' inflation expectations, and these trends are still stronger than the rebound in oil and wheat prices.

So, we expect the NBP to cut rates by 50-75 basis points this year, and the easing cycle may well continue into 2024.

However, the inflation picture in Poland is not unequivocally positive. Poland's core inflation rate is declining significantly slower than elsewhere in the region; a roughly 20% increase in the minimum wage is expected in 2024, and a sizeable fiscal loosening is planned. Once the favourable impact of falling external prices ends, it's going to be difficult to bring inflation back to target on a sustained basis.

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