

## Poland's inflation may fall to single digits in August but pace of disinflation to slow

The final CPI print for June confirmed that inflation slowed to 11.5% year-on-year from 13.0% in May. We estimate that core CPI fell to 11.1% YoY from 11.5% a month prior. We see further deceleration ahead, likely allowing the MPC to cut rates in September and October



Prices of goods rose by 11.4% YoY, and service prices by 11.7% YoY, compared with 13.3% and 12.3%, respectively, in the previous month. The biggest contributors to further disinflation in June were the deepening of the decline in fuel prices, the slowdown in the growth of prices of energy carriers, and the slightly slower growth of food prices compared to a month ago. These factors lowered the annual inflation rate in June by about 1.1 percentage points relative to May. For the second month in a row, consumer prices did not change significantly vs. the previous month. Core inflation declined markedly again and according to our estimates eased to about 11.1% YoY in June vs. 11.5% in May.

However, the months of rapid disinflation are behind us. Since the peak in February, CPI inflation has declined by nearly seven percentage points. We expect the disinflation process to continue, but its pace in the second half of the year will be slower, due to, among other things, a somewhat smaller drag from the reference base. In July, we may see a decline in prices relative to June and we may see the annual inflation rate at single-digit levels as early as August.

The Monetary Policy Council has officially ended the cycle of interest rate hikes and is preparing for

rate cuts, which, according to recent announcements by the National Bank of Poland President Adam Glapinski, may take place as early as after the summer holidays. This is also our baseline scenario, assuming rate cuts in September and October (both by 25bp). At the same time, the NBP's July projection indicates that even in the absence of interest rate changes, inflation will take a long time to return to target so the space for rate cuts seems limited. The market-priced scale of monetary easing may prove too aggressive.

## Authors

### Piotr Poplawski

Senior Economist, Poland

[piotr.poplawski@ing.pl](mailto:piotr.poplawski@ing.pl)

### Leszek Kasek

Senior Economist, Poland

[leszek.kasek@ing.pl](mailto:leszek.kasek@ing.pl)

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