

## Lower Polish inflation opens the door to deeper rate cuts next week

Poland's inflation came in below consensus in April. Given the disinflationary external context, we expect a 50bp cut from the National Bank of Poland next week



All things considered, we expect a 50bp rate cut from the National Bank of Poland in May and 125bp for the full year

Polish consumer prices rose 4.2% year-on-year in April, following an increase of 4.9% YoY in March. The reading was 0.1ppt below both our forecast and the market consensus. Food and non-alcoholic beverages rose by 5.3% YoY, energy prices by 13.0% YoY, and fuel prices were 8.3% lower than a year earlier. We estimate that core inflation eased to 3.4-3.5% YoY in April from 3.6% in March.

The decline in annual inflation is a combination of three factors. The most important is the base effect on food inflation, resulting from the reinstatement of VAT on food in April 2024. This is the main reason for the drop in annual inflation in this category from 6.7% to 5.3%. The second factor is the decline in the annual rate of fuel prices, to 8.3% from 4.7% in March, which is related to the depreciation of the dollar and lower oil prices at international markets. Third, lower inflation is supported by slowing wage growth and low demand, which are leading to a gradual decline in the dynamics of core inflation.

The just-released CPI data provides an important argument in discussions about the scale of National Bank of Poland (NBP) interest rate cuts at next week's MPC meeting. From the beginning of the year, the inflation path in Poland has already been running significantly lower than the

NBP's March projection.

We forecast that in the second half of 2025, with the expiration of the July 2024 energy price unfreezing effect, inflation will return to a band closer to the NBP's target, approaching 3% YoY. Market expectations and the opinions of MPC members are moving in a similar direction. Moreover, new data from the eurozone and the US shows that the global economy is weakening. On top of that, we also expect to see a disinflationary impact from a flood of Chinese products.

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