# Polish CPI back to single digits for first time since February last year

According to the flash estimate, the rise in consumer prices eased to 8.2% year-on-year in September from 10.1% in August and was in single digits for the first time since February 2022. It also came in lower than the latest projection from the National Bank of Poland

Compared to August, prices fell by 0.4%. A large contribution to the decline in the CPI came from food prices, which fell for the fourth consecutive month in month-on-month terms (0.4%). Prices from energy carriers also declined (-0.7% MoM), helped by the increase in the cap on energy consumption to which the price is frozen at the level from 2022. September also brought a sharp decline in gasoline and diesel prices (-3.1% MoM).

The drop in core inflation (excluding food and energy prices) was also substantial - from 10% YoY in August to 8.5% YoY in September. In monthly terms, prices were stable.

The decline in inflation is a positive sign and will support a recovery in consumption. The downward pressure on food prices continues. Part of the disinflation, especially with respect to household energy and fuel, stemmed from regulatory measures and intervention from the government and public entities.

The most dynamic period of disinflation is now behind us. By the end of 2023, we expect inflation to fall to around 7% YoY, and from mid-2024 to stabilise around 5-6% YoY, remaining clearly above the NBP's target. Moreover, the decline in interest rates, the rise in oil prices and the weakening of the zloty are laying the groundwork for a weaker period of disinflation in 2025.

We expect the MPC to cut interest rates by 25bp to 5.75% next week in response to the disinflation. By the end of 2023, the benchmark rate should fall to 5.50%. Given CPI stabilising around 5-6%, the room for further rate cuts in 2024 is limited.

We are concerned that the NBP's excessive disinflationary optimism may be resisted by the market with a weaker zloty, as the disinflation process in Poland looks unsustainable compared to other countries:

- The decline in core inflation is still much slower than in the rest of the region and the domestic policy mix is hardly helping to bring it down.
- In the Czech Republic, the inflation target should be reached in the first quarter while in Poland, the NBP sees CPI around 3.5% in the second half of 2025, and in our view, this will happen much later.
- The NBP has adjusted its ultra-loose stance, but still stands apart from cautious Hungary (targeting positive real rates) and the Czech Republic (delaying a first rate cut despite the better inflation outlook).
- The NBP wants to cut rates despite the fact that the Federal Reserve and European Central Bank have finally convinced the markets that high rates will remain for longer.

We believe that the rhetoric of the NBP president next week will be very important for the zloty. Over-emphasising single-digit inflation could raise concerns that the NBP will revert to a very loose stance, misaligned with the inflation outlook and central banks in the region as well as the Fed and ECB. This may result in renewed pressure on the zloty.

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