Polish CPI set to approach central bank target as outlook improves

Poland's CPI inflation moderated to 4.1% year-on-year in May, below consensus of 4.3%. Granted, it's still above the National Bank of Poland's target of around 2.5%, but the outlook is improving. Headline inflation could be much closer to the target by July, giving the MPC no other option but to continue cutting rates after a pause in June

Sopot, Poland. We think the country's inflation outlook is starting to brighten up

In May, Polish CPI inflation declined to 4.1% year-on-year, below the consensus of 4.3% and from 4.3% in April, as core inflation most likely continued its downward trend. We estimate it fell to 3.3% YoY from 3.4% YoY in the previous month. We note the period of elevated inflation coming to an end and expect substantially lower price dynamics in the second half of this year.

Poland's inflation outlook is increasingly favourable as the weak US dollar and relatively cheap commodities provide disinflationary external factors. The Energy Regulatory Office's (URE) decision to cut the regulated price for natural gas for households means that the moment we see CPI dropping towards target is drawing nearer. With gas prices down by nearly 15%, the average gas bill for households is set to decline by some 10% from July this year. A high reference base from July 2024 (when energy prices were partially unfrozen) means that CPI headline may already be very close to the National Bank of Poland's target in two months' time.

The main question mark for the Monetary Policy Council (MPC) is still the tight labour market and elevated wage pressure, as wage dynamics broke the downward trend in April. Along with weak construction output data and uncertainty regarding global trade, this is likely to convince policymakers to take a pause in June after a decisive rate adjustment of 50bp in May.

Still, prospects for inflation are clearly very optimistic, and with inflation close to the target from July, there is no rationale for keeping the policy rate at high levels (currently 5.25%). We therefore expect the MPC to begin with 25bp rate cuts in July, when the new inflationary projection is set for release. We see at least two more 25bp cuts thereafter in September and November. Should disinflation turn out to be a quicker process than currently expected currently, we would not rule out an even faster easing cycle – potentially with another 50bp rate cut.

Author

Adam Antoniak
Senior Economist, Poland
adam.antoniak@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.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.