Polish CPI up in August but core inflation is stable

Polish CPI inflation rose in August to 4.3% YoY from 4.2% YoY in July, according to flash estimates. Core inflation likely remained at an elevated level of 3.7-3.8%YoY. While the numbers will be noted by the central bank's MPC, we think most members have already decided not to cut rates until 2025

Shoppers in Warsaw, Poland

Compared to July's numbers, we saw only a limited seasonal decline in food prices (-0.1% MoM) and lower fuel prices (-0.9% MoM), while the prices of energy carriers increased (0.1% MoM).

We estimate core inflation stayed flat at 3.7-3.8% YoY vs. 3.8% the previous month. The monthly seasonally adjusted core is less benign than in 2Q24, but we see a contribution from regulated prices. Water supply and sewage disposal costs probably rose again in August.

We expect a stabilisation in the marginal rise of core inflation in the coming months. Starting in September, there may be a marked increase in education costs due to high salary increases for teachers in the public sector, which should translate into a broad-based increase in the price of educational services such as tutoring, language courses and so on.

By the end of the year, CPI inflation should remain in the 4-5% YoY range, and core inflation may rise.

The persistence of CPI and core inflation are likely to be noted by the MPC. In addition, the draft budget for 2025 indicates a looser fiscal policy in 2024 than previously planned and no significant tightening in 2025.

At the same time, global inflation trends are favourable, and major central banks are entering a phase of monetary easing. In addition, the government is declaring the extension of energy price shield measures for households into 2025, which could translate into a lower-than-expected inflation path next year (4.6% or lower YoY on average, in our view, against 5.0% YoY according to the NBP projection,).

We expect the MPC to leave interest rates unchanged next week and NBP President Adam Glapinski to emphasise the uncertain inflation path. However, recent statements from Council representatives point to a dovish pivot in favour of interest rate cuts in 2025.

We believe that the second half of next year should bring a clear decline in headline inflation, which should create space to start a monetary easing cycle. We expect the first 25bp interest rate cut in 2Q25, and by the end of next year, the benchmark rate could be lowered to 5-4.75%.

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