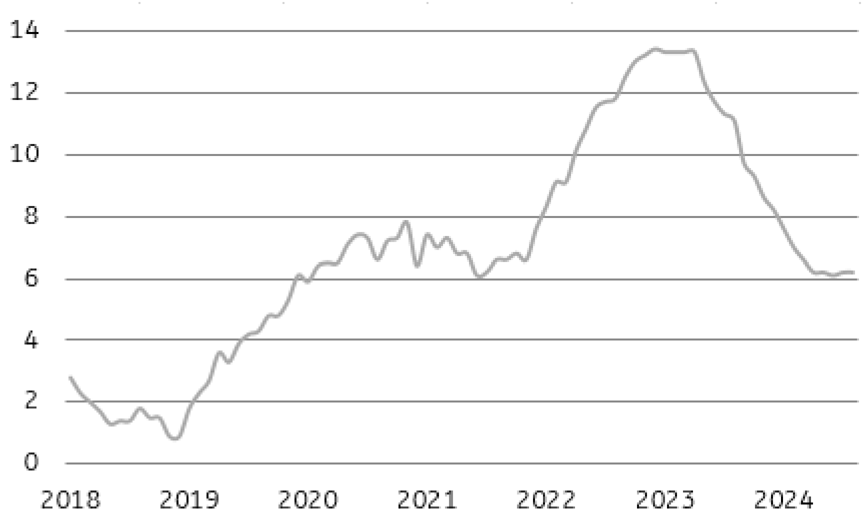
Polish services inflation remains high; persistent core rate delays rate cuts

August CPI inflation was confirmed at 4.3% year-on-year and core inflation stood at around 3.7-3.8% YoY, as services price growth remains above 6% YoY. The persistence of core inflation means that the MPC won't be in any hurry to start policy easing. Monetary easing in 2025-26 may prove slower than currently priced-in by the markets

Poland's CPI inflation was confirmed at 4.3% YoY in August. Goods prices rose by 3.6% YoY last month, and services by 6.2% YoY, compared to 3.5% YoY and 6.2% YoY respectively in July. For the past six months services price growth has remained close to but above 6% YoY and has failed to continue a downward trend.

Services inflation stabilised above 6%YoY

Prices of services, %YoY



Source: GUS.

We estimate core inflation at 3.7-3.8% YoY in August (3.8% YoY in July). The decline in this measure of inflation has slowed and core inflation is likely to rise in the coming months. Contributing to this in September will be, among other things, the base effect associated with the reduction in pharmaceutical prices over the same period last year and the expected significant increase in prices in education.

The decline in global oil prices observed in recent weeks may limit the growth of headline inflation in the coming months. At the same time, the rising annual growth rate of food prices is set to contribute to higher headline inflation.

We expect the next two National Bank of Poland projections (in November and March) to indicate that the inflation outlook for the second half of 2025 has clearly improved, especially if the government extends protective measures on household electricity prices. Yet, the persistence of elevated core inflation means that the MPC will not hurry to start easing its policy and the monetary easing cycle is likely to be less aggressive than the market is pricing in.

Our baseline scenario assumes the first 25bp interest rate cut in the second quarter of 2025 and rates to moderate by a total of 100bp throughout 2025, to 4.75% by the end of next year. Decisions should mainly depend on incoming data, and the council is likely to maintain a relatively restrictive stance in order to avoid boosting already high market expectations for the scale and pace of interest rate cuts in 2025-26.

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