

Polish inflation slowed less than expected in July, but rate cut still in sight

Headline inflation fell to 3.1% year-on-year in July from 4.1% in June, yet this was higher than our forecast and market expectations. We don't think this will derail the rate-cut train as disinflation remains on track. We think the National Bank of Poland will continue monetary easing and deliver a rate cut at the next meeting in September

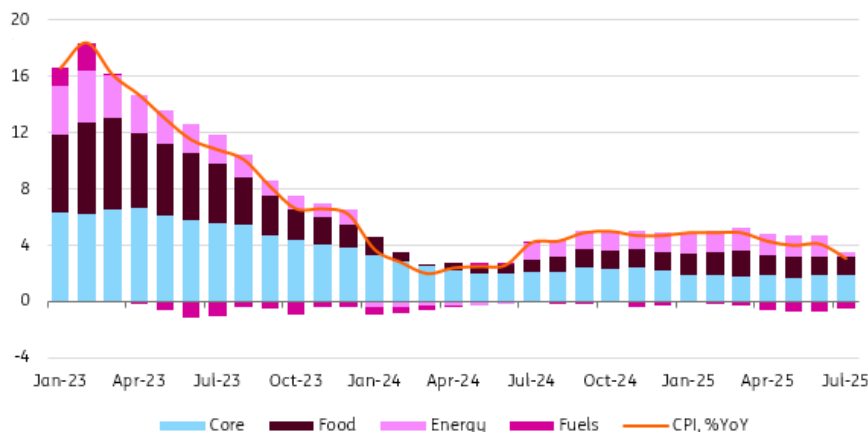


In July, consumer price growth slowed to 3.1% year-on-year from 4.1% YoY in the previous month, but still exceeded our forecasts and the market's expectations, which called for a reading below 3%. Annual growth in household energy prices eased to just 2.4% YoY from 12.8% YoY in June due to a higher reference base, as household energy prices jumped sharply in July 2024. This July, lower regulated prices for natural gas came into force, but at the same time, the electricity capacity fee was restored, which boosted overall energy bills. As a result, prices in the “electricity, gas and other fuels” category increased by 1.1% month-on-month. Fuel prices rose by 3.5% MoM after five consecutive months of declines, beating our estimate, but they were still some 7% lower than last year. The upswing was linked to market turmoil stemming from a temporary escalation in Middle East tensions. Prices of food and non-alcoholic beverages fell 0.6% MoM, maintaining annual growth at 4.9%. Food prices typically decline during the summer months, though this

seasonal pattern has weakened in recent years.

Polish inflation declined substantially in July

CPI and its sources, %YoY, percentage points



Source: GUS, ING.

The sharp decline in CPI inflation was not surprising; however, we had hoped for an even deeper slowdown. We expect that in August, inflation will ease further towards the central bank target of 2.5% (+/- 1 percentage point) and stay broadly stable at low levels in the coming months. Higher-than-expected CPI in July does not change the generally positive disinflationary trends, and the Monetary Policy Council (MPC) has substantial room for further rate cuts. We believe the Council will cut policy rates at its next meeting scheduled for September.

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