

September rate cut on the cards as Polish inflation falls in July

According to a flash estimate, CPI inflation in Poland declined in July to 10.8% year-on-year (ING forecast: 10.9%, market consensus: 10.9-11%) from June's 11.5%. We are on track to reach single-digit CPI in August and a rate cut by the National Bank of Poland in September



National Bank of Poland governor Adam Glapinski

The main driver behind the July CPI decline was food prices, which dropped by 1.2% month-on-month, likely driven by seasonal declines in the prices of vegetables and fruits. They deducted 0.6pp from the yearly CPI. Energy carrier prices were unchanged month-on-month, but their year-on-year slowdown deducted 0.2pp from yearly CPI.

Fuel prices, on the other hand, rose by 0.4% MoM, despite holiday price promotions, adding 0.2pp to yearly CPI.

We estimate that July brought a further sharp decline in core inflation excluding food and energy prices – to around 10.5% YoY from 11.1% in June, which deducted 0.2pp from yearly CPI.

CPI outlook: short-term positive, mid-term mediocre

Inflation is on the path to a single-digit print as early as September. The decline in inflation is

largely related to the receding of external shocks. After dynamic disinflation in the second quarter, we expect a slower decline in CPI inflation during the second half of the year. If oil prices remain at current levels (above \$80/bbl), we may see fuel prices rise again after the summer holidays.

The medium-term inflation outlook remains uncertain, in part due to likely increases in regulated energy prices beginning in 2024 and continued double-digit wage growth (given a significant minimum wage increase next year).

Monetary policy outlook

Despite some easing in the monetary policy stance in July, the major central banks (such as the US Federal Reserve and the European Central Bank) remain cautious in their assessments of the inflation outlook and see risks of price increases being perpetuated at elevated levels, maintaining a hawkish stance and willingness to tighten monetary policy further. They also point out that the medium-term inflation outlook is not so optimistic, due to overly strong labour markets, demographics, fiscal expansion, and the earlier loosening of the policy mix, among other factors.

Real interest rates in emerging and core economies

Emerging market central banks are likely to start rate cuts ahead of developed markets'



Source: Macrobond

The situation is slightly different in emerging economies. Some are already cutting interest rates (e.g. Chile, Hungary). The National Bank of Poland (NBP) is focusing on the expected decline in inflation to single-digit levels and says it is ready to cut interest rates after the holidays. This is despite the central bank's projection indicating that the decline in inflation to the target will be a long-term process.

In our view, the NBP should cut rates by 50-75bp in 2023 and begin easing in September. However, monetary easing will prolong the period for inflation to return to target and we see important mid-term risks.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@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.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

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