

## Polish core inflation sees a sharp drop in September

Poland's September flash CPI print came in at 8.2% year-on-year, with core inflation at around 8.5%. The slowdown in core prices was in part driven by administrative decisions. For now, the MPC remains focused on current inflationary trends and should continue the easing cycle next month with a 25bp cut



Food and beverage prices rose 1.6% month-on-month vs. our estimate of 1%

The Central Statistical Office of Poland confirmed September's inflation estimate at 8.2% year-on-year, following a 10.1% YoY reading in August. Goods prices rose by 7.6% YoY and services by 9.7% YoY, down from 9.8% and 11.1% respectively a month earlier. According to our estimates, core inflation sharply declined from 10.0% YoY in August to around 8.5% in September.

The main reasons behind the 1.9pp decline in the annual inflation rate are:

- Food prices (deducted 0.6pp).
- Energy prices (fuels and electricity, -0.5pp).
- Core inflation, accounting for 0.7-0.8pp, half of which reflected administrative actions.

The 0.4% month-on-month decline in food prices was mainly due to lower meat prices (-0.8%, mainly poultry), cheaper vegetables and fruit, and lower prices for vegetable and animal oils. In the case of energy carriers, the MoM price decline is a consequence of the higher threshold for energy consumption, at which prices are frozen at 2022 levels. As a result, electricity prices fell by 2.3%

MoM. Disinflation was also facilitated by a drop in fuel prices at gas stations (-3.1% MoM), which is likely a temporary phenomenon as fuels in the CEE region became more expensive.

## Slower growth of core prices driven partly by administrative decisions

The marked deceleration in core inflation was a combination of both market forces and administrative decisions. The data shows a marked decline in pharmaceuticals (-5.3% MoM) due to an update in the list of reimbursed drugs, including free pharmaceuticals for children, adolescents and seniors. There was also a drop in the prices of transportation services (-14.3% MoM), package holidays (-4.3% MoM) and TV and radio fees (-7.9% MoM). In total, these factors lowered core inflation by about 0.7pp, more than half of which was related to the administrative reduction in the prices of reimbursed drugs.

## CPI inflation set to decline until April 2024, but likely to rebound later

Our preliminary estimates suggest that the headline inflation will fall slightly below 7% YoY in October. We should end the year at a marginally higher level as inflation is likely to increase slightly in December due to base effects. The level of inflation at the beginning of 2024 will largely depend on administrative decisions, including how fast frozen prices for electricity, gas, and zero VAT on food will be normalised.

Still, our current projections suggest that after reaching a local bottom in April 2024, inflation will begin to rise again in the latter part of next year and by the end of 2025 should remain clearly above the National Bank of Poland's target. In the context of the expected rebound in economic growth in 2024 and its inflationary structure with the dominant role of consumption, the current approach to monetary policy may prove too loose to bring inflation down to the 2.5% target.

## MPC on track for another 25bp cut in November

Communication from the Monetary Policy Council is focused on current disinflationary trends (i.e., a rapid decline in CPI under the influence of retreating external shocks and weak domestic demand). Less frequently discussed, however, are the risks looming over the coming four to six quarters: the rapid rise of labour costs, a strong improvement in real disposable incomes, the return of an inflationary GDP structure with a large share of consumption, and a steep Philips curve.

We expect that in November, the MPC may cut rates by another 25bp (to 5.5%), and by mid-2024, rates may be cut to 4.75%. From then on, they'll likely remain unchanged.

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