Single-digit CPI inflation in Poland expected for remainder of 2023

In August, CPI inflation fell to 10.1% year-on-year but should moderate to single-digit levels in the coming months. This month we should see core inflation exceed headline inflation. With Poland's central bank avoiding positive real interest rates, its target of 2.5% remains a distant prospect though

Poland's StatOffice has confirmed its preliminary estimate of August inflation at 10.1% year-on-year.

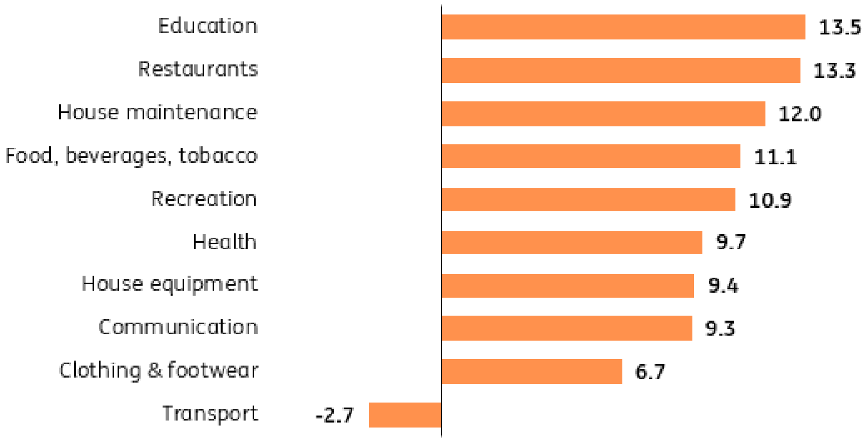
Goods prices rose by 9.8% YoY, while services prices jumped by 11.1% YoY, up from 10.6% and 11.3% respectively in July. Services price inflation is clearly more persistent.

The 0.7 percentage point decline in annual inflation relative to July was mainly driven by a further deceleration in the annual growth of food prices from 15.6% YoY in July to 12.5% in August. Compared to the previous month, food prices fell by 1.0% month-on-month, with notable declines in the prices of vegetables (-6.0% MoM) and dairy (-0.9% MoM).

The second major disinflationary factor was the slower increase in the price of energy. In August, prices were 13.9% higher than a year ago, while in July the price growth amounted to 16.8% YoY. Compared to July, prices in this category were unchanged, although (liquid) gas and solid fuel prices were slightly lower. This was offset by a small increase in heating costs. We estimate that core inflation excluding food and energy prices moderated to 10.0% YoY from 10.6% in July.

Poland's CPI inflation moderated further in August amid the slower growth of goods prices

%YoY



Source: GUS.

This month, we expect CPI inflation to fall to single-digit levels on the back of a further deceleration in food price increases as well as lower increases in energy and fuel prices. Core inflation is also projected to decline to single-digit levels, but will be higher than the headline inflation rate.

The short-term outlook for CPI inflation is favourable as we foresee it falling below 9% YoY as early as this month and to around 7% by the end of 2023. Medium-term trends, however, are no longer so favourable. Until mid-2024, we should see a further decline in inflation, but the second half will bring stabilisation at around 5%, which is more than double the target, or even an increase, for which there are a number of reasons.

The draft budget for 2024 indicates a higher fiscal imbalance than previously expected, which, in the context of a rebound in the economy, may push the inflation path upward.

The deeper-than-expected cut in rates by the National Bank of Poland (NBP), prolonged negative real levels and the related weakening of the zloty also push inflation expectations for the second half of 2024 higher.

Finally, the situation in commodity markets, including the rise in oil prices above US$90 per barrel, raises the risk of sustained elevated inflationary pressures. As a result, prices are likely to rise by 5-6% on average next year, and further monetary easing by the NBP may translate into an increase in inflationary risks for the second half of next year.

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