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Economic Comment

CPI increased a bit in July

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CPI inflation in July reached 15.6% y/y after a revision from 15.5% y/y. Services were mainly responsible for the acceleration in inflation, rising by 1.2% m/m as compared to a 0.3% m/m increase in goods prices. We estimate that core inflation rose to 9.2-9.3% y/y from 9.1% y/y in June. We expect inflation to ease in the coming months towards 14% in December. The weakening price momentum and growing signals of imminent recession suggest to us that the Polish MPC may be considering a pause in the hiking cycle in September, when it meets after the summer break. Whether it will be the end of the cycle or just a short break, it will depend on the future economic data and the FX market situation. But we do not expect the NBP rate to go above 7% in this cycle.

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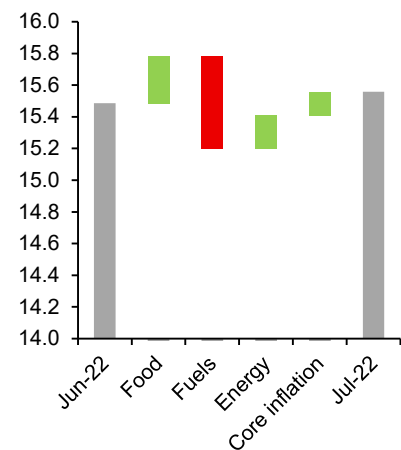
Food prices went up by 0.6% m/m and still most products in this category showed above-normal momentum. Only meat, fruit and vegetables were following a typical seasonal pattern. Sugar prices jumped by 7.0% m/m due to a new shock to this market. The prices of energy continued to rise, with the strongest increases in solid fuels (5.0% m/m, which still represents a marked slowdown compared to previous months), and heat (1.7% m/m). Fuel prices, on the other hand, fell by 2.6% m/m and, in our view, this commodity will also have a downward effect on the inflation rate in August.

Transport services (5.0% m/m), recreation and culture services (2.7% m/m), package tourism (3.7% m/m), restaurants and hotels (1.3% m/m) all rose strongly.

We expect inflation to ease in the coming months towards 14% y/y in December. However, early 2023 may see energy tariff increases, which could push the inflation rate to a new high, after which it should resume its downward trend.

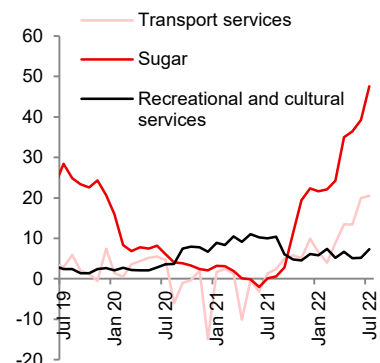
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CPI inflation, breakdown, % y/y



Source: GUS, Santander

CPI inflation, particular categories, % y/y



Source: GUS, Santander

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