

15 September 2025

Economic Comment

Inflation kept below 3%

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In August, CPI inflation stood at 2.9% y/y, which is 0.1 pp above the preliminary estimate of 2.8%. According to our calculations, core inflation excluding food and energy probably slowed to 3.2% y/y from 3.3% y/y in July. We expect CPI inflation to rise to around 3.2% y/y in September and remain in the range of 3.2-3.4% y/y until the end of the year, which will be related to increases in heating prices and other household maintenance costs. In our view, August inflation data will not discourage the Monetary Policy Council from further interest rate cuts, and the probable September reading exceeding 3% y/y may act in favour of a decision to postpone the next rate cut until November, when the updated NBP projection will be available.

In August, CPI inflation stood at 2.9% y/y, which is 0.1 pp above the preliminary estimate of 2.8%, although still below July's 3.1% y/y. Thus, it turned out that our inflation forecast for August was correct. On a monthly basis, overall prices remained unchanged, which also represented a marginal upward change from the preliminary reading of -0.1% m/m. Out of the categories shown in the earlier CPI estimate, the y/y revision occurred only in the food and non-alcoholic beverages category, from 4.8% to 4.9%. According to our calculations, core inflation excluding food and energy probably slowed to 3.2% y/y from 3.3% y/y in July. Goods price inflation continued its downward trend, reaching 1.7% y/y in August compared to 1.9% y/y in July. Inflation in services prices also fell by 0.2 pp, from 6.2% y/y to 6.0% y/y. Our estimate of super-core inflation (i.e. core CPI excluding administered prices) fell from 2.8% y/y in July to 2.6% y/y in August.

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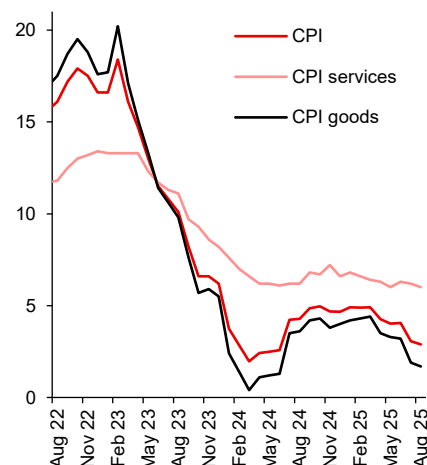
In our view, August inflation data will not discourage the Monetary Policy Council from further interest rate cuts. However, if, as we forecast, the next reading exceeds 3% y/y (the preliminary calculation by GUS will be known to the Council at its October meeting), this may act in favour of a decision to postpone the next rate cut until November, when the updated NBP projection will be available.

Core inflation slightly down

The annual price dynamics for most core categories in August were similar to July's readings. Prices for home furnishings and household appliances declined further (-1.1% y/y compared to -0.4% y/y in July), driven by lower prices for furniture, decorative items, and lighting equipment. Clothing and footwear prices declined by 0.2 pp, from -2.3% to -2.5% y/y, while prices in the recreation and culture category slowed to 2.9% y/y from 3.4% y/y in July. Price dynamics for other goods and services decreased from 1.7% to 1.0% y/y, largely due to lower prices for tools and personal hygiene products.

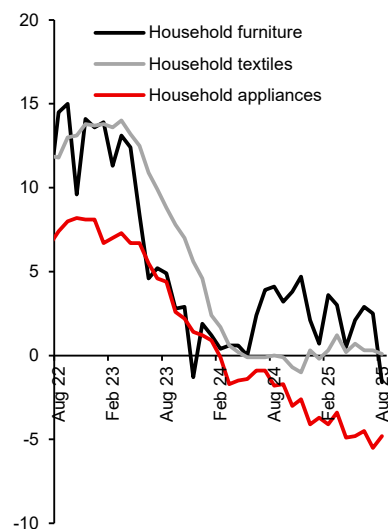
In the structure of monthly price changes in core categories, the "communications" category recorded an unusually strong increase (1.4% m/m after 0.3% m/m in July), driven by higher prices for mobile phone services. Transportation services, on the other hand, although 2.1% cheaper than in the same period in 2024, experienced a month-on-month price increase greater than expected, rising by 8.1% m/m. Passenger cars prices continued to decline, falling by 0.4% m/m in August after a 0.5% decline in July. However, unlike the previous six

CPI inflation, % y/y



Source: GUS, Santander

CPI, selected categories, % y/y



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months, lower prices only affected used cars (0.9% m/m), while prices of new cars rose slightly (0.2% m/m).

Prices in the recreation and culture category slowed. This category had seen a surprising increase in prices in the previous two months, but this time, neither products nor services in this sector saw particularly significant changes. Clothing and footwear prices fell by 1.5% m/m, quite typical for their seasonal pattern. However, alcoholic beverages and tobacco prices rose more than usual, with cigarette prices rising 1.2% m/m.

Energy prices slightly higher m/m, sharp drop in fuel prices

The prices of energy carriers rose by 0.1% m/m in August and by 2.3% y/y, slightly less than in July (2.4% y/y).

Electricity prices remained unchanged, while gas prices fell by 0.1% m/m. Fuel prices fell by 0.1% after rising by 0.2% in July, with both moves deviating downwards from the usual seasonal pattern, according to which increases in this category begin in July. In the case of system heat, prices rose by 0.6% m/m in August. Despite the expiry at the end of June of the mechanism limiting the maximum scale of heat supply price increases, its effect has not yet been reflected in the CPI. According to our estimates, the effect may be worth some 10% on heat prices alone, translating to 0.2-0.3 percentage points in terms of overall inflation. In our opinion, this effect should be reflected in the readings for September and October, due to the way how advance payments in housing cooperatives work and the heating season to start soon.

In August, fuel prices fell significantly, by 1.9% m/m (no revision from the preliminary CPI reading). The behaviour of fuel prices in the first half of September and, so far, the stable course of oil prices suggest that fuel prices will also fall this month, albeit on a much smaller scale.

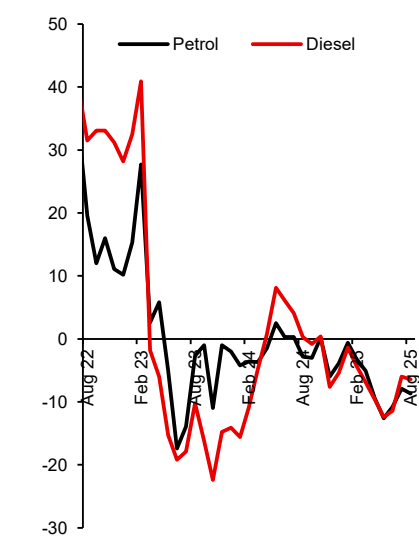
Food inflation stable at an elevated level

Food and non-alcoholic beverages inflation remained stable at 4.9% y/y in August, unchanged from June and July, even though the flash estimate released at the end of last month showed a decline to 4.8% y/y. Because the month-on-month change in food-price level was confirmed at -0.1%, the revision of the year-on-year inflation rate must have resulted from just a small overestimate of the monthly decline in prices, by a couple hundredths of a percentage point. Within non-alcoholic beverages, where prices rose by 0.6% m/m, the sharpest price increase was observed for coffee (1.5% m/m), with tea prices falling by 0.4% m/m and cocoa and chocolate powder prices falling for the first time in over a year (by 0.2% m/m).

Among the main product groups, slight declines in inflation rates were registered in bread, meat, and dairy, and a bit stronger declines – in oils, and fruits. Although the meat category as a whole did not see a price increase, beef and veal continued to rise in price (1.4% m/m), and pork fell for the third consecutive month (-0.5% m/m). On the other hand, quite a strong increase was registered in vegetables, whose inflation rate rebounded from -0.3% y/y to 1.5% y/y. The increase resulted from a relatively small month-on-month decline in prices, by just 1.2%. For comparison, in the last ten years, vegetable prices declined in August on average by 4.9% m/m. The decline in fruit prices was also not strong, as it equalled only 1.0% m/m, compared to an average decrease of 2.1% m/m in the last ten years. However, because last year fruit prices did not decline at all, the year-on-year inflation rate registered a minor decline, as we have already mentioned, from 12.2% y/y to 1.1% y/y.

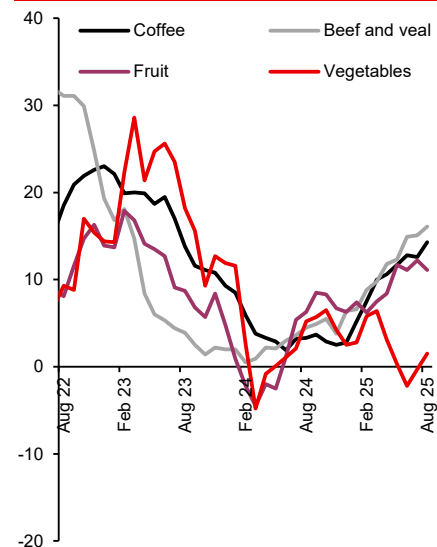
We expect food price inflation to decline slightly in the coming months and should reach around 4.0% y/y by the end of the year, supported by better-than-last-year harvest reported by GUS.

CPI, selected categories, %y/y



Source: GUS, Santander

CPI, selected categories, %y/y



Source: GUS, Santander

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