

30 June 2023

Economic Comment

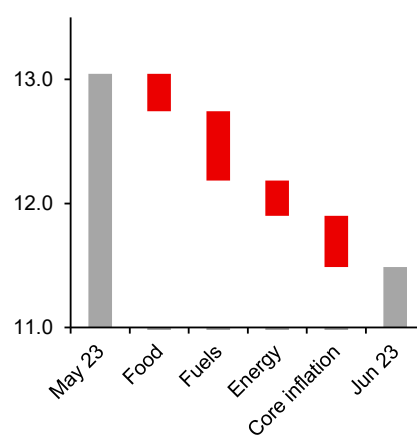
CPI below forecasts again

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CPI inflation fell in June to 11.5% y/y from 13.0% y/y in May, more than expected (we and market: 11.8% y/y). Food prices declined by 0.3% m/m (below our estimate), fuels declined by 0.9% m/m and energy by 0.3% m/m (close to our expectations). It seems that the biggest surprise was delivered by core inflation, which declined to 11.0% y/y from 11.5% y/y in May, according to our estimates. We are expecting inflation to continue on its downward trend and decline below 8% in December. One-digit results is highly probable in September and even cannot be ruled out in August.

Yet, let us note that average inflation in 2Q23 (13.1% y/y) was 0.3pp higher than predicted in the March NBP projection, and next two quarters should be similar to the previous projection. The NBP will show its updated projection at the MPC meeting next week, but we find little reasons to believe it will be substantially more optimistic as regards the pace of CPI return to 2.5% target. The voices in the MPC about possible interest rate cuts before the year-end are likely to intensify as the CPI keeps going down, but we still think that the MPC will not decide to cut interest rates in 2023, given distant prospects of inflation's return to target, rebounding economy and labour market resilience.

Breakdown of change in annual CPI, % r/r



Source: GUS, Santander

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