Polish energy shield withdrawal sparks reinflation concerns

The Polish government has approved a bill withdrawing the majority of the energy shield for households, which will translate into higher electricity and natural gas bills from July 2024 onwards. This will temporarily boost headline inflation and discourage Poland's central bank from starting the debate on monetary easing in the coming months

Bełchatów Power Station, the largest coal power plant in Poland

Energy prices frozen for households at 2022 levels until mid-2024

Households in Poland were protected from the global energy shock via the so-called energy shield in 2023 and the first half of 2024. Electricity prices for retail consumers were frozen at the 2022 level of PLN412/MWh (pre-tax) up to a certain level of consumption. Similar measures were taken for natural gas, with net gas prices kept administratively at PLN200/MWh. Distribution charges were also kept unchanged.

Energy prices for households are regulated in Poland, but the tariffs approved by the energy market watchdog (URE) more or less reflect developments on the wholesale market. Distributors were compensated by the government for keeping prices for households frozen at 2022 levels. The actual electricity tariff is at PLN739/MWh and the natural gas tariff is at PLN290/MWh. Distribution charges were also approved at levels broadly 50% higher than currently charged.

Energy market situation changed markedly

Since the current measures expire in mid-2024, the Polish government has approved a new bill regulating household energy prices. Otherwise, electricity bills would automatically increase by 62% and gas bills by 45% on the back of adjusting prices and distribution charges to levels approved by the Energy Regulatory Office (URE). In the meantime, the market situation has changed substantially, with wholesale prices for electricity and especially natural gas not only running well below URE tariffs but also the administratively frozen prices.

Our working scenario assumed that authorities would keep electricity prices frozen and allow distribution charges to rise, increasing the average electricity bill by some 15%. In the case of natural gas, we saw room for keeping gas bills unchanged in the second half of 2024 and adjusting the tariff at the beginning of 2025 to keep prices for households flat. In such a scenario, we saw year-end CPI inflation at around 4.5% in 2024. However, authorities decided to tackle the issue in a different way, most likely in order to reduce the fiscal burden of compensation for energy distributors.

New measures allow for substantial increases in energy prices in the second half of the year

The new energy legislation is comprised of several measures. Firstly, energy distributors can apply for new tariffs from July 2024, which remain valid until the end of 2025. Secondly, it introduces a maximum price of electricity for households in the second half of 2024 at PLN500/MWh (without limits on consumption). Thirdly, it introduces energy vouchers for less wealthy consumers, which should ease the burden of higher electricity prices for around three million lower income households. All in all, the new solution is expected to cost the budget slightly above PLN8bn.

So, what does this all mean in practice? Distribution charges will go up starting in July and the net price of electricity will increase from PLN412/MWh to PLN500/MWh in the second half of this year. At the same time, the government expects new tariffs to be set at lower levels than they are currently (around PLN600/MWh for electricity and slightly above PLN200/MWh for natural gas). The average electricity bill is expected to rise by about 29% starting from July and the average gas bill by some 15%, boosting CPI by around 1.7 percentage points. This is about one percentage point more than we assumed for the second half of 2024, and is therefore likely to be closer to 5.5% year-on-year by year-end than 4.5% as we had expected previously.
What's more is that the PLN500/MWh electricity price is only valid until December this year, so the beginning of 2025 will bring around a 10% increase in the average bill as prices are adjusted to the new tariff (assuming it will be around PLN600/MWh).

Higher CPI to keep the NBP cautious and sticking to its hawkish bias in the coming months

Does this really matter for Poland's monetary policy outlook? Yes and no. On the one hand, the boost from energy price normalisation is expected to be temporary and lift inflation in the second half of this year and the first half of 2025. Clearly, MPC policy cannot change that now – especially given the delays in the monetary transmission mechanism. If anything, higher energy prices may have a negative impact on spending on other goods and services, and could therefore prove disinflationary. On the other hand, inflation is on the rise anyway – and would be higher even if the energy freeze was extended in its current form – and inflation expectations have been rising recently. What's more is that core inflation is projected to remain elevated. We believe it would be difficult for the National Bank of Poland to send dovish signals in such an environment.

We're sticking with our monetary policy scenario and we still expect the main NBP policy rate to remain unchanged at 5.75% by the end of 2024. Given that inflation should moderate visibly in the second half of next year, we see room for some monetary easing from the beginning of 2025, especially if policymakers become convinced that the disinflationary trend is sustainable. In 2025, we expect 75-100bp of cuts in NBP rates.

Author

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl