

Poland sees surprisingly sharp fall in inflation amid cheaper subsidised coal

CPI inflation fell to 16.6% year-on-year in December from 17.5% YoY in November on the back of cheaper coal (down by more than 20% vs. November). Core inflation continued to trend upwards and probably rose to 11.7% YoY from 11.4% YoY in the previous month. Persistently high core inflation will leave no room for rate cuts in 2023



According to the flash estimate, CPI inflation fell to 16.6% YoY in December (ING: 17.4%; consensus: 17.3%) from 17.5% YoY in November. Compared to November, prices rose by just 0.2%, largely due to a 3.3% monthly fall in energy prices. This can be attributed to a decline in coal prices, including government-subsidised imported coal. Given that electricity and gas prices for households are regulated and did not change significantly in December, this means that coal cheapened by more than 20% in December relative to November. By contrast, the fall in fuel prices and the rise in food prices were both close to our expectations. We estimate that core inflation, excluding food and energy prices, accelerated to 11.7% YoY in December from 11.4% YoY in November.

Consumer inflation declined for the second month in a row, but the scale of the decline in December was sharper than the most optimistic forecasts. The withdrawal of the Anti-Inflation Shield from 1 January and the low reference base associated with its introduction will boost

annual CPI inflation readings in the first two months of this year. The local peak is therefore still ahead, but it is increasingly likely to be below 20% YoY. There is also a growing chance that inflation could decline to single digits by the end of 2023.

This means that the MPC will most likely be able to formally declare that the current rate hike cycle is over. We expect that rates will probably remain unchanged until March (and most likely throughout 2023), while the MPC awaits the results of the next macroeconomic projection to better assess the inflation outlook. The energy shock is losing momentum supported, among other things, by weather anomalies in Europe. In our view, there will be no conditions for interest rate cuts this year due to the high and persistent core inflation.

Author

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.