

## 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.

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