

## Poland's CPI inflation falls due to lower energy prices

The CPI peak is still ahead but inflation should decline in 2023 on base effects, albeit with persistently high core inflation



### Lower CPI inflation in Poland is due to falling energy prices; food and core show fast growth

November CPI inflation slowed down to 17.4% year-on-year in November from 17.9% in October versus the expected 17.9-18% YoY. The reason for the surprise is the 0.1% month-on-month drop in energy prices (lots of foreign coal was delivered and the government subsidies are working). However, the other components of inflation are still recording large increases. Food prices jumped by 1.6% MoM in November, thanks in part to earlier increases in energy prices. Core inflation is still rising fast at 0.6% MoM (after seasonal smoothing this is still high). This brings the core's annual rate up to 11.3% YoY in November from 11.0% a month before.

### CPI peak still ahead but inflation should decline in 2023, albeit with high core inflation

This inflation picture is far from optimistic. The peak in CPI is still ahead of us and will probably be reached in February at around 20% YoY. In 2023, we have an inflationary overhang to 'unload' due

to the anti-inflation shields introduced earlier. There will be an increase in VAT on electricity, gas and heating in January, which will bump up CPI by around 2.5-3pp. Keeping 0% VAT on food is still uncertain. We heard yesterday from PM Mateusz Morawiecki that the reduction will only be in place in the first half of next year, but we assume it will be extended until at least the third quarter of 2023. Overall, average inflation next year will be around 14% YoY. The underlying theme in 2023 will be a large fall in CPI, from around 20% to around 10% by the end of the year. We note that statistical base effects will play a strong role in this slide. The core CPI should stay persistently high, at around 10% through most of the year. This will complicate the conduct of monetary policy. The [3Q22 GDP data released today](#) shows a major slowdown in consumption, which should slow the process of high costs being passed onto retail prices. However, 2023 is an election year which usually brings new spending and it is just a matter of time before this appears.

## Lower energy prices reduce headline inflation in Europe, other risks remain in place

After the November readings, the inflation landscape in Poland and Europe is similar. The latest data surprised on the low side, but mainly through softer energy prices, resulting from policy intervention. Globally, we are also seeing the first signs of improving inflationary pressures, i.e. softening disruptions in supply chains, falling freight prices and declines in commodity prices (including the all-important gas for Europe). But central banks, e.g. the European Central Bank and tonight the Federal Reserve, will try to calm the over-optimism. The reasons for the banks' caution are (1) stubbornly high core inflation in 2023 (especially in Poland and Euroland); (2) large fiscal stimulus in Europe/Poland, but not the US; (3) the consensus and projections from the National Bank of Poland assume a gradual normalisation of commodity prices in 2023, but we fear that when the global and Chinese economies rebound, the problem of high prices may return.

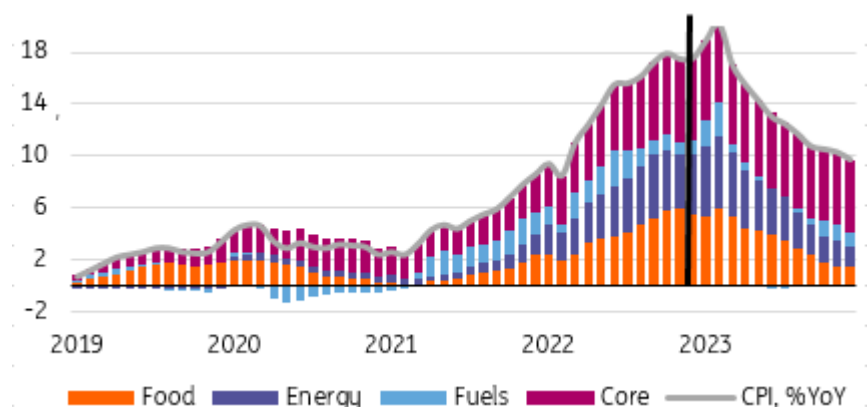
## NBP has definitely ended the tightening cycle

The NBP has effectively ended the rate hiking cycle and today's CPI reading should be very welcome by the MPC's doves. However, cuts are unlikely next year. The problem is the persistence of core inflation in Poland, the inflationary overhang created by the large inflationary shields, and our concerns about renewed commodity price rises in 2023. There is limited capacity growth in the major producers of energy commodities or industrial metals. This could manifest in a renewed spike in prices, as Europe looks to fill gas storage for the winter of 2023-24. Also, a rebound in the global and Chinese economies could lift precious metals prices.

In our view, the MPC will not change rates over the coming year. The current green shoots of global disinflation should support the POLGBs market. However, the problem of high inflation will not end with headline CPI falling to around 10% YoY at the end of 2023.

# The CPI drop in 2023, but with persistently high core inflation

CPI (%YoY) and contributions



Source: ING, GUS

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