

## CPI stabilises in Poland, but core inflation slows again

In the short term, inflation (especially core inflation) may surprise on the downside while headline CPI may dip below 5% in 1H24. But mid-term we are still far from the central bank's target given the inflationary impact of strong real disposable incomes and rapid recovery of consumption, offsetting a strong zloty and disinflationary external backdrop



Food and beverage prices rose 1.6% month-on-month vs. our estimate of 1%

Inflation is entering a period of stabilisation above the National Bank of Poland's target. In November, it stood at 6.5% year-on-year vs 6.6% YoY in October. Annual growth in food, energy and core prices continued to decelerate but was offset by a big jump in fuel (8.8% month-on-month) resulting in the overall stabilisation in the headline rate.

The most important element of the November data is the return of "slowflation" in the core. In monthly terms, the core rate rose by only around +0.1% after a big jump of 0.6% in October. In year-on-year terms, this inflation rate fell to 7.4% against 8.0% in October, and monthly core inflation on a seasonally adjusted basis was close to zero in November.

In the short term, inflation may surprise with slower core growth and CPI in the first half of 2024 falling below 5% YoY.

However, it will take a long time for CPI to return to target. 2024 should bring a struggle between opposing forces. On the one hand, inflation will be lifted by high labour cost growth (about 20% minimum wage) and a rebound in consumption (already 3Q23 data shows +0.8% YoY) driven by high real wage growth and disposable income, which should resume to a pre-pandemic pace. On the other hand, external disinflation, the reversal of supply shocks and the strengthening of the zloty should work towards lower inflation. In the second half of 2024 and 2025, we expect the core rate to resume its higher pace of growth, preventing headline CPI from returning to the NBP's target. That is why we see flat rates in 2024.

In the second half of 2024 and in 2025, we expect a return of the elevated increases seen in core inflation, and registered CPI will still remain above target. This argues for keeping rates unchanged in 2024.

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