

## Poland's CPI inflation down in April on food prices

Consumer inflation moderated to 14.7% year-on-year in April from 16.1% YoY, mainly as a result of slower annual growth in food prices, but core inflation remains elevated. There is no room for rate cuts in 2023 despite falling consumption, and policy easing will probably start towards the end of 2024



According to the flash estimate, CPI inflation fell in April to 14.7% YoY (ING: 14.8%) from 16.1% YoY in March. But the structure gives no reason for optimism.

Food prices were primarily responsible for the decline in annual inflation relative to March. In April, food prices increased by 19.7% YoY, compared with 24.0% YoY in March, lowering the annual inflation rate by around 1.1-1.2 percentage points. The slower annual price growth in this category this month was largely the result of a high reference base. In April 2022, food prices jumped up by around 4% month-on-month, while in April 2023 prices rose by only 0.5% MoM.

For the first time in more than two years, gasoline prices were slightly lower than a year earlier (-0.1% YoY). The annual rate of inflation in housing energy prices is also moderating.

But still, the most worrying part of the CPI is core inflation. This has likely passed the peak of 12.3% in March. We estimate it at 12.2% YoY. But the MoM dynamics remain solid, i.e. prices grew by 1.2% MoM, which is still close to the worst months of 2022 and close to the first quarter of 2023. Only the seasonal adjustments show any marginal improvement here.

Today's data confirms that inflation remains a major concern. It is encouraging to see it falling, but this is mainly due to the end of the energy shock, and was supported in April by a strong base effect in food prices. In our view, the persistence of core inflation is due to the fact that the demand barrier to price rises is still too low. We have seen a decline in consumption for two quarters, but after several years of booming incomes and consumption, companies are still able to pass costs onto prices. In addition, businesses are probably still using up stocks purchased 'just in case' at high prices. Core price growth has been above 1% MoM in recent months, suggesting that price pressures remain high, and bringing inflation back to target will be a major challenge for the National Bank of Poland and will not materialise any time soon. At the end of 2023, we see the headline inflation rate below but close to 10%.

In our view, in the context of stubbornly high core inflation, there will be no conditions for interest rate cuts in 2023 and the monetary easing cycle will start at the end of the third quarter next year.

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