

Snap | 15 March 2023

POLAND

## Poland: CPI inflation peak behind us, but disinflation will be gradual

CPI inflation rose to 18.4% year-on-year in February, up from 16.6% the previous month. The print came below the consensus (18.7%), largely owing to changes in the CPI basket weights. CPI most likely reached the 2023 peak in February and should decline over the next few months, mainly due to the slower growth of energy, fuel and food prices



### January

CPI inflation data for January has been revised downward from 17.2% to 16.6% year-on-year due to updated CPI basket weights and possible revisions of price increases in core categories. Month-on-month CPI growth was revised to 2.5%, against a flash estimate of 2.6%, despite an upward revision of the monthly change in prices of energy carriers. It was revised upward to 12.6% from the 10.4% MoM preliminary estimate. At the same time, the annual rate of price growth in this category was revised down to 29.7% from 34.0% YoY in the flash estimate. The phase-out of reduced VAT rates to a standard 23% rate translated into an 18.2% MoM increase in natural gas prices in January and a 22.3% increase in electricity prices, despite measures to freeze pre-tax prices. Earlier estimates of fuel and food prices were confirmed.

### February

In February, overall CPI slowed to 1.2% from 2.5% MoM in January, but year-on-year CPI inflation rose to 18.4% due to the low February 2022 base (-0.3% MoM), when VAT rates on energy and food were reduced. Goods prices jumped up by 20.2% YoY in January, while prices of services rose 13.3% YoY. On a year-on-year basis, the largest increases in consumer prices were due to more expensive food and housing-related costs, which contributed 5.97 percentage points and 5.19ppt to the CPI, respectively.

The government's actions to freeze regulated prices (especially electricity and gas) translated into a stabilisation of electricity prices in February (0.0% MoM) and a slight decline in gas prices (-0.4% MoM) on the back of declines in unregulated liquefied petroleum gas (LPG) prices. At the same time, fuel prices declined. However, the price of solid heating fuels, water supply and central heating increased. February brought an increase in fuel prices (1.2% MoM), mainly due to more expensive gasoline and LPG, with declines in diesel prices.

The month-on-month increase in food prices in February was similar to January's (1.8% vs. 2.0%) and exceeded our expectations. However, the hikes in food prices earlier this year are no longer as significant as in the worst months of 2022. Vegetables became more expensive, boosting the monthly CPI by 0.22ppt. Meat prices rose on a similar scale to January, while dairy prices were slower.

The significant increase in telecommunications prices is noteworthy, with communications prices up by 2.9% MoM, adding 0.12ppt to the monthly CPI increase.

### Change in CPI basket weights

Alongside the publication of data for February, the Central Statistical Office of Poland updated the inflation basket weights based on changes in the structure of household spending over the past year. There was a marked increase in the prices of food and non-alcoholic beverages (up to 27.0% from 26.6%), driven by strong price growth in this category (average annual growth of 15.4%) with a limited impact from the volume of purchases. The share of expenditures related to energy use and transportation also increased. For these two categories, price increases arguably dominated the decline in purchases (savings), which translated into an increase in the share of total spending. Poles spent noticeably less (by 0.6 percentage points) on alcohol and tobacco and home furnishings (weaker demand for durable goods).

### Summary

On the one hand, the basket revision means a technical reduction of 0.6ppt in the peak CPI in February 2023. On the other hand, the total month-on-month jump in prices as measured by the overall CPI index was higher than expected in February (1.2% vs. 0.9%). The reasons for this higher CPI growth are food and fuels which exceeded our estimates, however we can see that

month-on-month food price jumps in early 2023 are not as high as they were in the worst months of 2022.

Of more concern is core inflation, which continues to rise strongly in monthly terms in early 2023. The component of inflation that is growing slower than expected is energy prices, which have been frozen.

### **The outlook for inflation and National Bank of Poland rates**

The coming months will be marked by disinflation due to, among other things, a high reference base (especially from March 2022), the extinction of upward pressure on energy prices (LPG, fuels), and the freezing of some regulated prices. We expect the headline inflation rate (CPI) to decline to single-digit levels by the end of the year, although the decline in core inflation will be noticeably slower. In our view, the process of passing through high costs on retail prices is ongoing and the scale of the economic slowdown is too small to limit the cost shock last year. A decline in imported goods inflation can be counted on, but prices of services more dependent on domestic wages will continue to generate high price pressures.

Core inflation is also showing strong signs of persistence in the major economies. Inflationary risks remain significant, which means that the Monetary Policy Council has not yet formally ended the interest rate hike cycle, although further monetary tightening now seems unlikely. The Council will not initiate rate cuts until it is convinced that inflation will permanently decline to target. In our view, elevated core inflation will not allow for rate cuts in 2023, but we expect them in 2024.

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