Poland: CPI inflation slowdown confirmed, but core remains elevated

CPI slowed in April, but service price growth remains high and core inflation is persistent. Newly-announced election calendar spending (1% of GDP) also suggests continued inflationary pressure and no rate cuts in 2023

Inflation in Poland slowed to 14.7% in April

The StatOffice confirmed its estimate of April CPI inflation at 14.7% year-on-year. Goods rose 15.1% YoY in April vs. 17.1% in March and services rose 13.3% YoY vs. 13.3% a month earlier. Disinflation is seen mainly in goods prices. Services prices rose at a rate of 13.3% YoY for the fourth consecutive month.

The decline in inflation in April vs. March was mainly due to slower year-on-year growth in food prices, largely linked to a high reference base.

In contrast, upward pressure on prices in core categories and high service prices persist. For example, transport services prices rose 24.8% month-on-month in April. We estimate that core inflation excluding food and energy prices declined only slightly last month, to 12.2% YoY from 12.3% in March.

The drop in core inflation is welcomed, but against the background of the Central European region, it is a rather modest improvement. In the Czech Republic, April core inflation is already 4.5pp lower than the peak, in Romania about 0.9pp, and in Hungary 0.8, but in the latter case from a very high level. New pre-election spending pledges equal 1% of GDP, and we'll see the sequel in June and September. The current core inflation picture, as well as the expected further fiscal expansion associated with the election calendar, means that core inflation will remain stubbornly high for longer.

We expect the downward trend in CPI inflation to continue in the coming months, but the pace of price declines will slow. The biggest impact on disinflation is the end of the direct impact of the earlier energy shock (falling fuel prices, slower growth in prices of energy carriers). At the same time, the indirect effects of this shock and the transfer of higher costs to the prices of goods and services still persist, resulting in continued high core inflation.

By the end of the year, inflation will most likely fall below 10% YoY, but this is not, in our view, a reason for the monetary authorities to be complacent, let alone a basis for starting a monetary easing cycle. In the medium term, we still see significant risks of elevated inflation. Electricity prices for households are being kept below market prices and will likely have to be raised in 2024. Expansionary fiscal policy is also an upside risk to inflation. New spending under the election programme announced yesterday includes the valorisation of child benefits to PLN800 from PLN500, free medication for the young and seniors, and the exemption of passenger cars from highway tolls, which will increase the deficit by about 1% of GDP in 2024. This is most likely not the end of the social policy changes, with further steps to be announced in mid-June and September.

We maintain the view that there will be no room for interest rate cuts by the end of 2023, and the first cuts will not take place until the autumn of 2024.

Author

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl