

Poland's CPI inflation revised down on lower core inflation

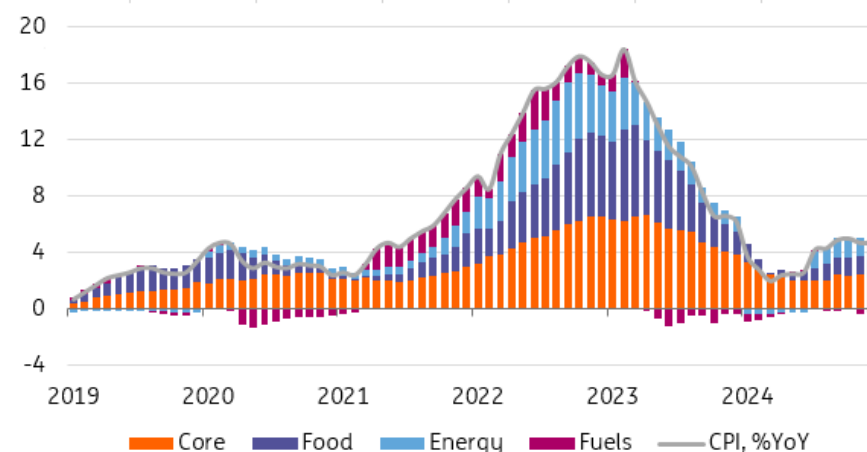
Poland's December CPI was revised down to 4.7% year-on-year from the initial flash estimate of 4.8% due to a lower-than-expected increase in core prices. Despite the projected increase in headline inflation in 1Q25, the overall outlook is improving and an expected moderation of price growth in 2H25 offers some room for rate cuts. But will this convince the governor of the National Bank of Poland to shift away from his hawkish stance presented in December?



The StatOffice revised December's inflation down to 4.7% YoY from the previously estimated 4.8% YoY. Service price inflation slowed to 6.6% YoY vs 7.2% in November, while goods prices rose 4.0% YoY compared to 3.8% a month earlier. Compared to November, the higher contribution from fuel prices (a smaller year-on-year decline) was offset by a lower contribution from core prices. Based on the CPI composition published today, we estimate that core inflation excluding food and energy prices declined to 3.9-4.0% YoY in December from 4.3% in November and was lower than the estimates made on the basis of the flash inflation reading.

CPI inflation unchanged in December amid slower rise in core prices

CPI inflation, %YoY, perc. points



Source: GUS, ING.

The first few months of 2025 will likely bring a further increase in inflation, peaking in a range of 5-6% YoY in March. One reason for the rise in CPI includes the low reference base from 1Q24. In the first few months of 2024, Poland still had a 0% VAT rate on food, and the energy shield (including a frozen electricity price at PLN 412/MWh). Other reasons are outside of the central bank's control (assuming stable inflation expectations), i.e. higher fees for water supply, sewage, and waste collection, and from March 2025, an increase in the excise duty on tobacco. What's more, in December, the Energy Regulatory Office (URE) approved a new distribution tariff for the Polish Gas Company (an average increase of about 25%), which will be in effect from January. Later on (2H25), CPI inflation is projected to decline because the base from the previous year will be high, lowering annual readings.

An important factor that the NBP governor has suggested may prevent monetary easing is the withdrawal of the maximum price for electricity prices for households planned for 4Q25. The NBP governor presented a pessimistic scenario, which we find unlikely. Our inflation scenario is based on the assumption that electricity prices will not rise significantly after the current maximum price of PLN 500/MWh is lifted. Although the current tariff is higher than the maximum price and amounts to PLN 623/MWh, it will likely be reduced mid-year because current wholesale electricity prices (BASE futures contracts for 2025) are lower than the current maximum price. In our baseline scenario, CPI inflation decreases to around 3.5% YoY at the end of 2025, which in our opinion provides room for interest rate cuts of 75-100bp this year to avoid an unnecessary increase in real interest rates. Core inflation should also gradually move towards 3% YoY.

In December, NBP Governor Adam Glapinski made a hawkish pivot highlighting concerns about the potential rise in inflation due to the expiry of the maximum electricity price for households. However, in our view, there is no strong justification for such a scenario. The March projection should confirm that a clear decline in inflation is ahead. The potential start of an interest rate-cutting cycle in 2Q25 remains on the table, although its likelihood has significantly decreased. The NBP's reaction function is unstable and it is difficult to assess what is guiding the Monetary Policy

Council today. It cannot be ruled out that the MPC will refrain from any policy actions until 2H25. Lower-than-expected core inflation in December led to the Czech National Bank softening its policy stance. Will the downward revision of Poland's CPI inflation and the decline in core inflation affect Glapinski's rhetoric at Friday's conference? We will wait and see.

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