

## Polish inflation falls sharply at start of 2024

CPI inflation fell sharply in January, as we had expected. It should remain low in the first quarter, but is expected to bounce back later on. Low inflation in January gives some grounds for optimism, but challenges remain. We still see interest rates remaining unchanged this year



### Inflation fell further at the beginning of 2024

According to the flash estimate from the StatOffice, CPI inflation fell to 3.9% year-on-year in January (ING: 3.8%; consensus: 4.2%). This is a big drop in annual inflation as back in December, it was at 6.2% YoY.

Compared to December, food prices increased by 0.9%, energy prices by 0.4% and fuel prices decreased by 2.3%. January also brought a further deceleration in core inflation (to around 6.1% YoY from 6.9% YoY in December). Compared to December, core prices did not change significantly, as was the case in 2018-20. Thus, there was no so-called 'January effect' (price rises), which was feared by some observers and which we noted in January's US CPI data. Also, food price increases were relatively low compared to historical data. The price war between the large discount chains may have contributed to this phenomenon.

We expect the first quarter to be marked by significant disinflation amid a high reference base from last year, among other things. In March, CPI inflation may temporarily come close to the National Bank of Poland's target of 2.5%, but we expect it to rise again in subsequent quarters. This increase will be driven mainly by fiscal and administrative decisions, specifically, the timing of the reintroduction of the 5% VAT rate on food, and the formula for withdrawing electricity and gas price freezes.

Should the 'inflationary overhang' associated with frozen electricity and gas for households materialise in the second half of the year, the inflation outlook for 2025 would clearly improve. That would increase the chances of inflation moving towards the NBP's target over the medium term and may make some room for monetary easing, as suggested by some MPC members. Given the uncertainty over discretionary decisions, our baseline scenario currently assumes that interest rates will remain unchanged until the end of 2024.

The January consumer inflation data published today is preliminary and based on the structure of the 2023 CPI basket. The data will be revised with the publication of CPI inflation for February. At that time, we will also know the new weights that will apply in 2024. Only after the publication of the February data and the basket update will we also know the January and February core inflation data.

## Is low CPI inflation in January grounds for complacency?

In terms of the positives, we see:

- Low food price growth (only 0.9% month-on-month) - the lowest since 2016.
- A further decline in core inflation.
- Price cuts at some important food and furniture retailers.

On the other hand, there are several reasons for prudence:

- We will see CPI around 2.5% YoY in March, but this is unsustainable.
- There is 4-5ppt of inflation still hidden in the frozen energy prices and zero VAT rate on food.
- High housing price growth, 2.3% MoM, despite falling energy prices, may increase other dwelling costs.

### Authors

#### Rafal Benecki

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

#### Adam Antoniak

Senior Economist

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group*

*(being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.