

## Poland's uncertain inflation prospects as commodity prices drop sharply

October CPI inflation was revised to 6.6% YoY, against a preliminary estimate of 6.5%. The inflation outlook is exceptionally uncertain due to administrative decisions. Our baseline scenario assumes 2024 CPI as high as 6%, leaving no room for additional NBP rate cuts



Food and non-alcoholic beverage price growth in Poland was revised from 0.4% MoM to 0.5%. Commodity prices rose 5.7% YoY, while service prices increased 9.3% YoY, compared to 7.6% and 9.7%, respectively, in September. The deceleration of services price inflation is noticeably slower than that of goods prices.

The biggest contributors to last month's decline in the annual inflation rate, relative to September, were a further slowdown in food price growth (7.6% in October vs. 10.1% YoY in September), a deeper decline in fuel prices than a month ago (-14.4% vs. -7.0% YoY) and slower growth in energy prices (8.3% vs. 9.9% YoY). We estimate that core inflation, excluding food and energy prices, declined to around 8.0% from 8.4% in September. On a monthly basis, however, we saw a high increase in core prices (about 0.6% MoM).

The inflation outlook is exceptionally uncertain due to the lack of any final decision on the zero VAT

rate on food and support measures in the energy market, as well as a decision on electricity and gas prices for households in 2024. Based on past declarations by representatives of the future government coalition, we assume that the VAT rate on food will be raised from January 1, 2024, and electricity prices will be frozen until the middle of next year.

In such a scenario, average annual CPI inflation in 2024 could be as high as 6%, leaving no room for interest rate cuts. We forecast that they will remain unchanged until the end of next year (the main NBP rate at 5.75%).

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