Poland's CPI below central bank target as food price war rages on

CPI inflation moderated in March to 1.9% year-on-year from 2.8% in February, falling below the central bank target of 2.5% (+/-1pp), the second consecutive decline in food prices linked to a price war among large retailers. Inflation should bounce back in the second half of 2024 on higher VAT on food and normalisation of energy prices for households

In line with expectations, consumer inflation fell below the National Bank of Poland target of 2.5% in March, moderating to 1.9% year-on-year (ING and consensus: 2.1%) from 2.8% YoY in February. According to the flash estimate, prices of food and non-alcoholic beverages fell 0.2% month-on-month, energy prices declined by 0.4% MoM, while gasoline prices barely changed (+0.1% MoM). Declines in food prices are among others driven by the price war among large retail chains.

Although the headline inflation fell below the NBP target, our estimates suggest that the core inflation excluding food and energy prices was nearly twice as high as the NBP target, reaching around 4.6% YoY and maintaining robust momentum (c.0.5% MoM). The decline of CPI inflation from 16.1% YoY in March 2023 to 1.9% YoY in March 2024 mainly stemmed from disinflation in food, energy and gasoline prices, which accounted for about two-thirds of the decline in annual CPI over the last 12 months.

Upcoming months are expected to bring a gradual increase of inflation, however the inflationary impulse from restoring VAT on food from April may turn out smaller than expected earlier (c.0.9 percentage point according to NBP estimates). In an environment of a raging price war some retail chains have declared they would keep prices of many food products unchanged next month.

Looking further ahead, the current energy shield will be withdrawn at the end of June. Authorities should soon announce measures they intend to introduce to prevent a spike in energy costs for households, but some increase is inevitable as prices of electricity and gas were frozen at 2022 levels for over a year. Our baseline scenario so far assumed moderate increase in electricity bill (15%) and unchanged gas prices. In the face of current market prices, official tariffs approved by the Energy Regulatory Office (URE) in December 2023 are at unreasonably high levels.

Current levels of inflation are unsustainable in our view and the scale of upswing in the second half of 2024 is subject to high uncertainty linked to regulatory prices (energy) as well as macroeconomic factors, including an economic rebound based on consumption, buoyant wages growth and loose fiscal policy. In such an environment the Monetary Policy Council is likely to maintain its recent cautious approach. We expect the NBP to keep interest rates unchanged in April, stressing upside risks to the inflation path in the coming months.

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