

## Poland's December CPI inflation revised up to 6.2%

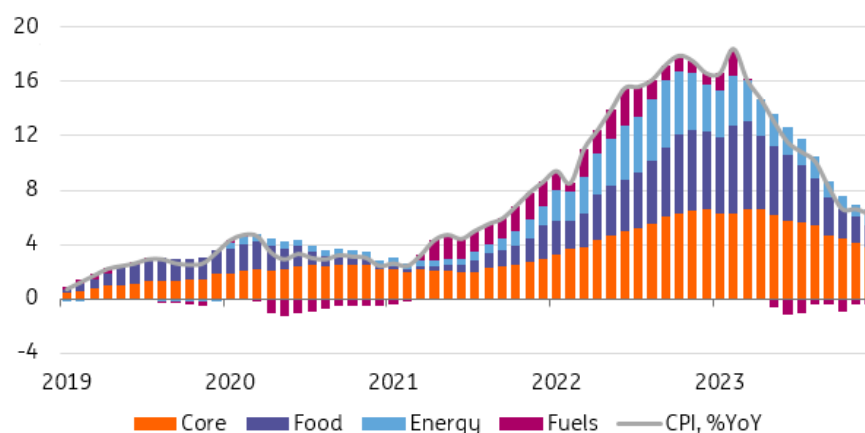
The StatOffice revised December CPI inflation to 6.2% year-on-year from an earlier estimate of 6.1%. CPI may fall close to the NBP's target in 1Q, but policymakers will likely refrain from cutting rates near term due to uncertainty surrounding the inflation outlook. We see room for 25-50bp of cuts in 2024, whereas the market is pricing in about 100bp



According to final data, CPI inflation eased to 6.2% YoY in December (preliminary estimate at 6.1%), down from 6.6% YoY in November. Goods prices rose by 5.5% YoY and services by 8.2% YoY, compared to 5.9% YoY and 8.6% YoY, respectively in November. The deceleration in food price growth (5.5% YoY, against 6.9% YoY in November) was the main contributor to the decline in annual inflation relative to November. Core inflation also remains on a downward trend, although it is still at a high level. We estimate that in December, core inflation excluding food and energy prices declined to around 6.9% YoY from 7.3% YoY a month earlier. Compared to November, clothing and footwear prices decreased markedly (-1.2% month-on-month).

## Headline inflation moderated further in December

CPI inflation and its sources, %YoY, perc. points.



Source: GUS, ING.

The short-term inflation outlook looks favourable, with the headline CPI in 1Q24 expected to be within the range of acceptable fluctuations around the NBP target (2.5%, +/- 1 percentage point). This is due to a combination of factors. Firstly, there is the high reference base from last year, when, among other things, the basic VAT rates on electricity, gas, heat and fuels were restored, following a temporary reduction. Secondly, the government has extended the 'freeze' on household energy prices (electricity, gas, heating) until the end of June 2024 and zero VAT on food until the end of March this year.

The Monetary Policy Council (MPC) is aware that the decline in CPI inflation close to the NBP's target in 1Q24 will be temporary and that the inflation outlook for the second half of the year is subject to exceptionally high uncertainty. During last week's press conference, the NBP Governor Adam Glapiński assessed that the 'inflation overhang' due to continued intervention in energy prices and lower VAT on food is around five percentage points. A full withdrawal of anti-inflation measures would immediately boost annual CPI by that amount. Therefore, in our view, the MPC will leave interest rates unchanged at least until March (the main rate at 5.75%) and will assess potential actions in the second half of the year after reviewing the March macroeconomic projection.

Despite the expected sharp decline in inflation in 1Q24, the prospects for a return of inflation to the NBP's target remain as remote as in the November NBP projection (end 2025), which leaves little room for interest rate cuts in the coming months, although the market is pricing in cuts of around 100bp in 2024 and expects a first move in March. Our baseline scenario assumes a 25-50bp cut in rates, and a decision on monetary easing could take place in May.

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