

## Stubborn Polish inflation limits scope for future rate cuts

According to the final estimate, CPI inflation in Poland rose to 2.4% year-on-year in April (in line with the preliminary estimate), compared to 2.0% in March. Since April, the disinflation trend has ended. We now see limited scope for monetary easing from the National Bank of Poland and most likely no rate cuts in 2024



Prices of Polish food and non-alcoholic beverages have rebounded at 2.9% YoY vs.1.9% in March. This was the result of the return of higher regular VAT rates on food. However, the higher VAT rates appear to have been partially absorbed by retailers as Poland's price war among retailers – which emerged at the beginning of the year – continues.

The very high increase in core inflation remains a major problem, though. While in year-on-year terms it has slowed from 4.6% to around 4%, in month-on-month terms, it increased by 0.5% (the National Bank of Poland's core inflation estimate will be released tomorrow). Companies also continue to pass on high wage growth to consumers. Consumer demand should grow over the coming months, mainly due to high household income growth (in real terms, higher than before the pandemic) This will most likely mean that core inflation will remain high in MoM terms. At the same time, the base effects of 2023 will expire. Consequently, we expect core inflation to stabilise

or even increase to around 4.5% YoY at the end of 2024. Headline inflation should rise to around 5.5% YoY at the end of 2024 and to 6.5% in the first quarter of 2025 – again, largely on base effects, but also with the gradual return of market electricity prices for households.

Poland is in a decidedly different situation than the core markets. Core inflation is growing far too fast, while high wage growth supports a continuation of this trend. This does not provide room for rapid NBP rate cuts, although the European Central Bank is likely to start its easing cycle from June. It also most likely means that the overall scale of NBP easing will be smaller than for other countries within the region.

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