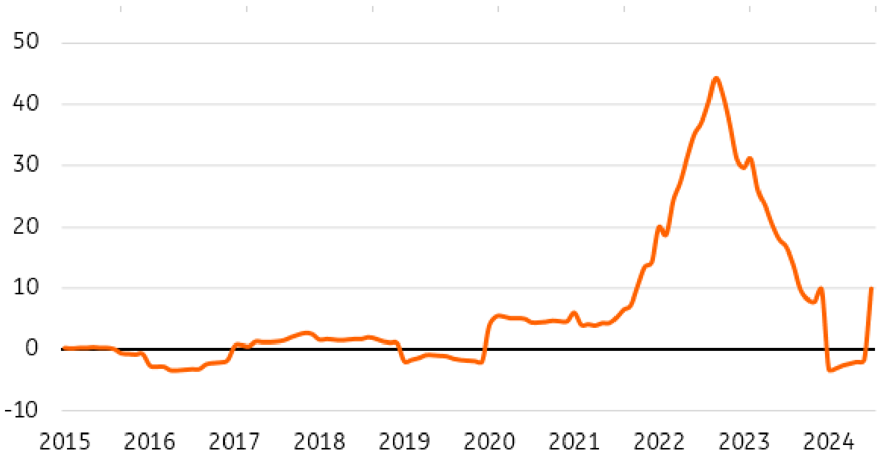
Polish inflation picks up on energy shield withdrawal; rate cuts set to be a 2025 discussion

Polish CPI rose to 4.2% YoY in July, up from 2.6% YoY in June. This can be almost entirely attributed to the withdrawal of measures under the so-called “energy shield”. We expect the MPC to maintain its hawkish rhetoric amid high headline inflation and rate cuts should take place no sooner than after inflation peaks in the first quarter of 2025

The magnitude of the impact of “energy shield” withdrawal in Poland turned out to be slightly lower than our estimates. Consequently, CPI undershot both our (4.5% year-on-year) and consensus (4.4% YoY) forecasts. The withdrawal of the gas and electricity price freeze (a maximum price of PLN500/MWh, in effect until the end of 2025) raised average bills for the mentioned energy carriers, bumping up the annual inflation rate by about 1.4 percentage points compared to June. Prices for house energy rose 11.8% month-on-month and 10.0% YoY in July. In addition to energy prices, the cost of housing should also rise in the coming months due to higher prices for water supply and sewage collection.

Higher energy costs for households after "energy shield" withdrawal

Energy for housing, %YoY



Source: GUS.

Food and non-alcoholic beverage prices declined by 0.5% MoM in July, but the scale of the decline was lower than in July 2023 (-1.2% MoM). This translated into an increase in the annual price growth in this category to 3.2% YoY from 2.5% YoY a month earlier. The increase in the annual rate of growth of food prices bumped up annual CPI inflation by about 0.2ppt relative to June. Fuel prices stabilised in July (0.0% MoM). We estimate the core inflation in July was at a similar level to June at 3.6-3.7% YoY, but the MoM seasonally adjusted core was less benign than in the second quarter of the year. Given the low reference base of the second half of last year, we expect yearly core to increase moderately in the coming months. But the risk of core reacceleration decreased recently given the depressed global growth picture, which may finally undermine the pricing power of Polish companies.

The materialisation of deferred inflation on energy carriers should translate into annual CPI remaining at elevated levels over the next 12 months. We forecast that by the end of 2024, inflation may fluctuate in the range of 4-5% YoY, with a peak in the first quarter of 2025 at around 5-6% YoY. The peak in inflation will depend on whether the government decides to extend the energy shield measures into 2025. As the law stands now, the PLN500/MWh maximum price for electricity and the exemption from the continuity fee are in effect until the end of 2024. It cannot be ruled out that at the end of the year the Ministry of Climate and Environment will propose a new package of shield measures. There may also be downward pressure on the gas and electricity tariffs adopted by the energy regulator in July. Theoretically, they should remain in effect until the end of 2025, but the wholesale prices continue to be significantly below the tariffs (today they are about 30% lower) and should distributors hedge at so low levels, regulator may propose lower tariffs.

We expect the MPC to maintain its hawkish rhetoric amid high headline inflation, and any discussion of monetary easing is unlikely begin before inflation passes its peak, i.e., in the second quarter of 2025. We see room for 75bp in rate cuts next year given the outlook of lower headline inflation for the second half of the year and 2026. The National Bank of Poland's hawkish bias increasingly stands out against other central banks in the region where steam has recently been added to the prospect of easing cycles, as well as developed market central banks whose easing cycles are now on the horizon. The NBP should follow suit, but with a lag. The risk of stagnation in German and CEE economies add to arguments that sticky core inflation in Poland may also slow, and in turn, this opens up space for more NBP easing in 2026.

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