

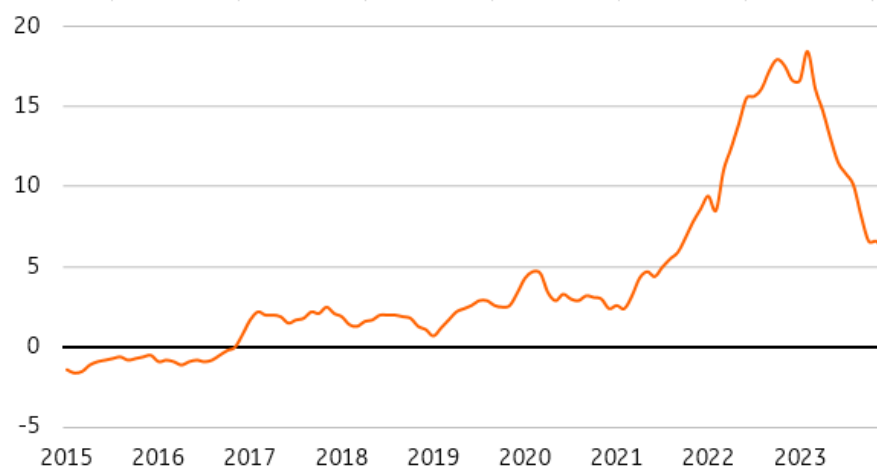
Polish inflation below expectations in December

CPI inflation at the end of 2023 dropped to 6.1% - a positive surprise. Disinflation will continue in the first quarter but the outlook for the remainder of the year is highly uncertain and dependent on administrative and fiscal decisions. The MPC is expected to remain in wait-and-see mode at least until March



According to the flash estimate, Poland's CPI inflation eased to 6.1% year-on-year in December 2023, down from 6.6% YoY in November (consensus: 6.5%; ING: 6.7%). Compared to November, fuel prices fell by 1.8% month-on-month, prices of energy carriers declined by 0.3% MoM, prices of food and non-alcoholic beverages rose by 0.2% MoM, and we estimate that prices in core categories increased by about 0.2% MoM.

Poland's CPI inflation, %YoY



Source: GUS.

We estimate that core inflation, CPI excluding food and energy prices, slowed to around 6.9% YoY in December from 7.3% YoY in November, which is a positive sign. We expect a sharp decline in inflation in early 2024, supported by, among other things, the extension of the anti-inflation shield on electricity and gas prices and keeping the zero VAT rate on food in 1Q24. In the coming months, inflation may temporarily approach the upper limit of deviation from the National Bank of Poland's target (3.5%), but this will not be a sustained decline. The inflation outlook for the rest of the year is highly uncertain amid factors related to administrative and fiscal decisions. If VAT on food is reinstated starting in April, and the government starts to phase out the measures to stabilise electricity and gas prices in the middle of the year, we could see inflation rise again to around 6% YoY in the second half of the year.

Amid these uncertainties, the Monetary Policy Council (MPC) will stick to its wait-and-see policy approach in the coming months. We expect policymakers to keep the NBP rates unchanged next week (main policy rate at 5.75%). The discussion of possible changes in monetary policy parameters will take place in March, on the occasion of the March inflation projection release. In the event of a withdrawal of the anti-inflation shields, the space for interest rate cuts in 2024 seems small (25-50bp).

Author

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING

does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.