

Economic Comment

The last inflation drop like this

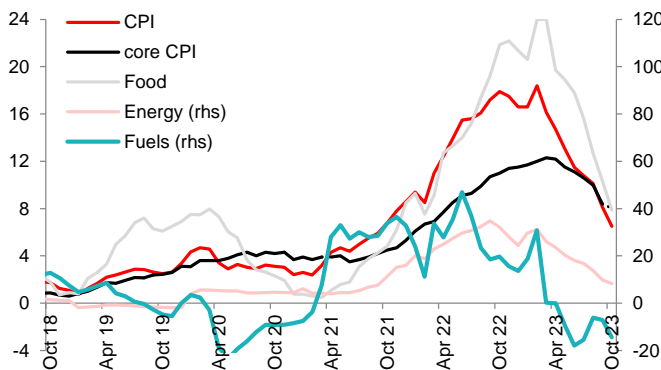
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According to preliminary GUS data, CPI inflation dropped to 6.5% y/y from 8.2%. This is equal to our forecast and a tad lower than market expectations at 6.6%. We believe that this was the last sizeable drop of headline annual inflation this year. Core inflation most likely fell to 8.0% y/y from 8.4% previously. Assuming a partial unfreezing of energy prices and normalisation of VAT rate on food we see average 2024 CPI inflation in 6.0-6.5% range.

In October, CPI inflation in Poland dropped to 6.5% y/y from 8.2%, according to the flash release. This is in line with our estimates and a tad lower than the market expected. We believe that this was the last sizeable drop of headline annual inflation this year and the following prints will be close to or somewhat lower than the October one.

Knowing the flash readings of food (+0.4% m/m, slightly higher than we thought), fuel (-4.2% m/m, some 2pp below our estimate) and energy (+0.2% m/m, close to our expectations) we can assume that core inflation might have been a bit higher than our initial estimate of 7.9% y/y – at 8.0%, possibly even reaching 8.1% vs. 8.4% y/y in September. The m/m core inflation change bounced back to 0.5-0.6% after a temporary drop marginally below zero in September. This would be a signal of more persistence in Polish CPI than the surprisingly low September had suggested.

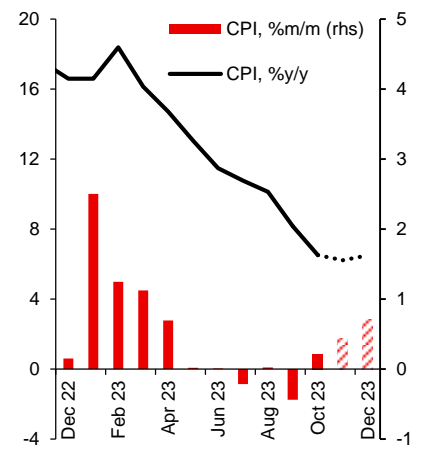
CPI inflation and its main components, %/y



Source: GUS, Santander

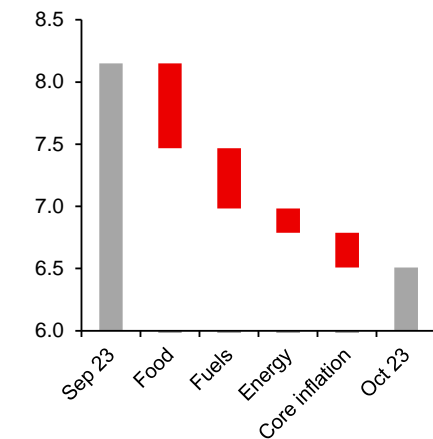
The CPI path in 2024 depends to a large extent on government's decisions regarding the energy price freeze (about to expire at the end of this year) and VAT on most food categories (now at 0%, but should be restored to 5% since January). With our assumption that households will face a 40% rise of electricity bills and normalisation of the VAT rate in 2024 the average inflation could be in the 6-6.5% area. The potential extension of the energy price freeze would lower the 2024 CPI inflation path by c.2pp and additional extension of the zero VAT on food would shave another 1pp from the CPI growth. However, such decisions would be costly and we still do not know what the new government's approach will be. It cannot be ruled out that some intermediate solution could be implemented (a partial and/or temporary extension of measures).

Inflation in Poland



Source: GUS, Santander

Contribution of main components to the change of Polish CPI inflation



Source: GUS, Santander

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