

Economic Comment

Inflation fell more than expected once again

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CPI inflation surprised to the downside in January, falling to 3.9% y/y from 6.2% in December, after 0.4% m/m price increase. Our forecast and market consensus were at 4.1% y/y and 0.5% m/m. Based on today's data, we estimate that core inflation excluding food and energy prices fell to 6.3% y/y in January from 6.9% y/y in December, against our previous estimate of 6.7%. It was core inflation that was the main source of the surprise.

We expect inflation rate to keep declining in the next two months, reaching the local bottom in March at 2.5% y/y. The scenario for the following months will strongly depend on government's decisions regarding the anti-inflation shields. Under our assumption that the zero VAT on food will expire in March and energy price freeze will be ended in June (with a partial protection of households, limiting the scale of price increases to 20% for natural gas and 30% for electricity), we predict CPI to revive towards 7% by the end of 2024.

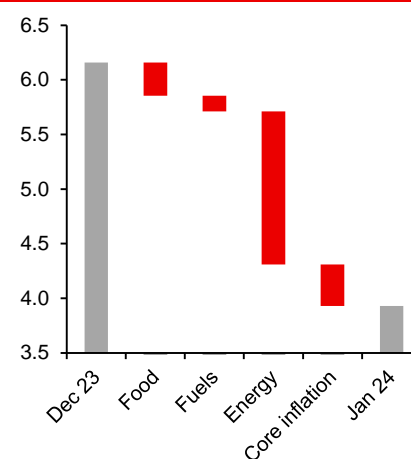
CPI inflation surprised to the downside in January, falling to 3.9% y/y from 6.2% in December, after 0.4% m/m price increase. Our forecast and market consensus were at 4.1% y/y and 0.5% m/m. The Polish inflation data follows earlier readings from Czechia and Hungary, which also came in below forecasts.

The decline in the annual inflation rate was largely due to the effect of a high energy price base (normalisation of VAT rates in January 2023). Energy prices rose slightly in January 2024, by 0.4% m/m, helped in part by an increase in the power surcharge. Food prices rose by 0.9% m/m, relatively little for January and in line with our assumptions. Fuel prices fell by 2.3% m/m, also as we had anticipated, but prices in the broader category of transport fell slightly more sharply than we had expected (-3.8% m/m), which was probably due to a stronger reduction in transport services prices. Alcohol and tobacco prices increased by 0.5% m/m, less than we had expected, but they may increase further in the coming months due to the impact of higher excise duties.

The release for January, as always, is provisional, and covers only a few categories, so we do not know the detail breakdown for most of other categories at this point. Also, the data will be revised next month after taking into account the annual change of weights in the CPI basket. The impact of the latter is very difficult to capture but our draft estimates suggest that it could lower CPI slightly in the first half of the year (possibly by c.0.1pp) and lift it higher in the second year-half. Based on today's data, we estimate that core inflation excluding food and energy prices fell to 6.3% y/y in January from 6.9% y/y in December, against our previous estimate of 6.7%. It was core inflation that was the main source of the downside surprise.

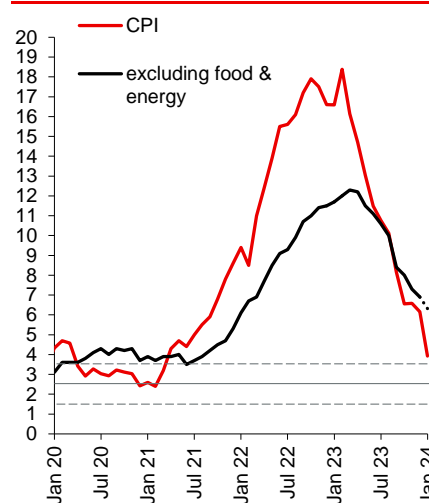
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Breakdown of change in annual CPI rate, % y/y



Source: GUS, Santander

CPI and core inflation, % y/y



Source: GUS, Santander

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