

Poland electricity bills

Poland's new government has decided to extend the electricity and natural gas price freeze to households by six months - until mid-2024. This decision prevents an abrupt upward price adjustment, but gradual hikes are pending. This will affect next year's inflation path and possibly reduce the central bank's readiness to cut interest rates.

Poland's former government enacted policy measures to mitigate the effects of high energy prices, especially the rise in natural gas prices driven by Gazprom in late 2021, and after the outbreak of the Russian war in Ukraine in February 2022. According to Eurostat, Poland's hikes in electricity prices and natural gas prices to households were among the lowest in the EU due to regulatory and fiscal intervention.

The settlement system was extremely complicated and well understood only by the small group of energy lawyers and experts in the country. The overall principle was similar to that applied in other countries; electricity providers selling below market prices were compensated for doing so with public money or dedicated budgetary funds, partially funded by energy producers. While setting the parameters of the mechanism, the authorities estimated the budgetary costs to be around 2% of GDP in 2022.

Fortunately, and to some extent surprisingly, intervention from the European Commission and member states in late 2022, supported by positive trends in global energy commodities and favourable weather conditions, led to a swift normalisation of the energy market situation over the course of 2023.

The current 1Y forward electricity prices are still 33% higher than the frozen tariff levels of PLN412/MWh, while the higher tariff band recently adopted by the ERO of PLN739 is nearly 80% higher. This freeze was extended by half a year by the new Parliament after the 15 October general elections. The bill was already signed by the president, so Polish households will continue paying the same price of around PLN412 until the end of June 2024 for consumption within the proportionally reduced threshold (of 1250KWh for six months).

Similar measures were undertaken for regulated prices on natural gas. The energy market watchdog cut the tariff from PLN484/MWh in 2023 to PLN318/MWh (down by 34%), but it is still well (nearly 60%) above the frozen price of PLN200/MWh that households will be paying in the first half of 2024.

Our outlook and the market consensus for oil, coal, gas, and CO2 allowance prices in the EU ETS in 2024 do not point to any significant space for lower wholesale electricity market prices in the coming months. Provided that current market prices stabilise, the new government will need to decide in the coming years about any regulatory upward adjustment in electricity prices to households.

We estimate that the around 80% price overhang for the energy component of the electricity bill and around 60% for natural gas can be phased out gradually in order to smooth the upward pressure on other prices. Poland needs electricity and gas price adjustments, but not another shock.

Therefore, unless market prices decline substantially, the authorities will be forced to undertake further measures to contain the scale of the energy price adjustments from July 2024 onwards. We expect the adjustment to take place in several steps. Our baseline scenario assumes that the electricity bill will jump by 15% and the gas bill by 10%, contributing some 0.9 percentage points to headline CPI inflation. This will probably reduce the National Bank of Poland's readiness to cut interest rates in the second half of 2024.

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Poland's electricity prices to households remains frozen until mid-2024. A hike of about 15% is pending from July, but thanks to favourable energy market developments further hikes in 2025 may be spared. This will affect the inflation paths for this year and next, and may open space for interest rates cuts by the National Bank of Poland

This article provides an update to a Think article we wrote in mid-December. Aside from new hints from the rhetoric of policymakers, the main reason for this update is the surprisingly fast downward adjustment of wholesale electricity prices.

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