Consumer prices in Poland rose by 11.0% YoY with more double-digit readings ahead

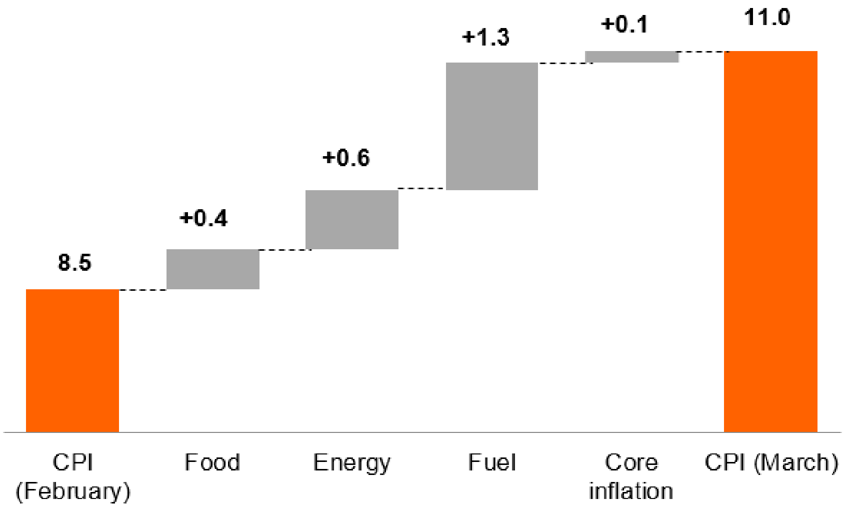
CPI inflation increased to 11.0% year-on-year in March on the back of rising costs of energy (fuels for transport and heating of dwellings), but it also has a significant domestic component. Core inflation increased towards 7% YoY. We expect the Monetary Policy Council to continue raising the main policy rate – to 6.5% in 2022 and 7.5% in 2023

High gas prices in Poland have contributed to elevated CPI inflation

The Statistics Office revised its estimate of March CPI inflation to 11.0% YoY from a flash estimate of 10.9% YoY. Consumer inflation increased to the double-digit level mainly as a result of external price shocks amplified by the outbreak of the war in Ukraine. Poland experienced a sharp rise in gasoline prices (28.1% month-on-month) and upward pressure on other energy sources, which boosted household maintenance costs. At the same time, food prices continue trending upwards and in March were 9.6% higher than in March last year.

External shock amplified by the war in Ukraine pushed CPI inflation in Poland to double-digit levels

CPI, %YoY



Source: GUS

Although external factors play an important role in price developments in Poland, the influence of domestic pressure should not be overlooked. Economic growth was buoyant in 1Q22 (possibly above 7% YoY) and the output gap continued to be positive. Price growth in Poland has been broad-based and also observed in goods and services that are not directly linked to external price shocks. We estimate that core inflation excluding food and energy prices increased to nearly 7% – the highest level since the National Bank of Poland (NBP) has published this measure (January 2001).

The labour market remains tight, which translates into a double-digit wage growth and mounting wage-price spiral. Higher costs of energy and other commodities along with rising wages push overall costs up. In order to protect profits, enterprises are forced to hike prices of its goods and services. Higher prices are accepted by buyers amid quite robustly rising households incomes and high inflation expectations.

What is ahead for the upcoming months? We have to get used to double-digit inflation as we may live with it even by the end of this year. Inflation is expected to peak in mid-2022 and we currently project the annual average CPI this year at around 11%. Price developments in 2023 will depend mainly on policy decisions on temporary cuts in indirect taxes (VAT, excise duty) and the scale of second-round effects. Annual price growth is likely to remain elevated in 2023 and CPI may return to the NBP target in 2024 at the earliest.

Taming inflation is currently a top priority for the Monetary Policy Council due to the risk of de-anchoring of inflation expectations. What is more, forthcoming sizable fiscal stimulus (due to additional cuts in direct taxes, higher spending on refugees from Ukraine and national defense) requires a more restrictive monetary policy. We expect the MPC to deliver another rate hike in May, but a smaller one than the 100bp increase in April. In 2022, and the NBP reference rate may increase to 6.5% and in 2023 to 7.5%.

Author

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl