

Polish CPI set to rise

CPI in Poland might exceed 7% YoY before the year end, and average inflation might be above 5% in 2022. A new wave of supply chain problems and rising prices abroad increases the risk of de-anchoring inflation expectations. Demand and wage pressures should be significant inflationary factors in 2022. We expected elevated CPI also in 2023.



6.8% YoY

CPI in October

Consensus at 6.5%

Higher than expected

According to a flash estimate CPI in October accelerated to 6.8% YoY from 5.9% in September. The increase is driven by fuel (+33.9% YoY) and food (+4.9% YoY) prices. Following the October gas price hike, energy price growth accelerated to +10.2% YoY.

We estimate that core inflation in October accelerated to 4.4% YoY, from 4.2% in September. Most

likely, the details (to be published on 15 November) will show continued strong growth in prices of goods. This is suggested by accelerating PPI (probably to c.10.7% YoY in October). Companies are pointing out that demand, whether domestic or foreign, is becoming less of a barrier for them. This helps to pass on rising costs to the consumers. Prices of services may be further boosted by rising labour costs. In Poland, for about four months now, the monthly pace of wage growth has been higher than the typical seasonal pattern. In our view, wage and demand pressures will be the important drivers of inflation in 2022.

We think today's CPI reading is not yet the peak for this year. We are approaching the 7% level faster than expected. We see a risk that CPI will cross this border in 2021. Price growth is widespread, already covering some 70% of the categories in the CPI basket. The same is also true for Poland's trading partners. Now Poland is set not to import low inflation from abroad, just the opposite. In addition, the weaker zloty should further fuel inflationary pressure.

We should also expect high inflation in the coming years. While supply-side factors play a large role this year, demand and wage pressures should be important inflationary factors in 2022.

Disruptions in supply chains are expected to persist until at least mid-2022.

We also see a risk of fiscal support in Poland in 2022 being larger than in 2021. We have been writing about pro-inflationary fiscal policy for a long time. In our view this is not only a risk for 2022 due to the tax changes in the Polish Deal or the planned cycle of excise duty increases on alcohol and cigarettes. We have already seen fiscal policy resulting in increasing consumption at the cost of a decline in the share of private investment in GDP long before the pandemic shock. But now, with widespread global inflation, the consequences are much more visible.

Recent surveys indicate that in Poland 70% of companies plan to further raise the prices of their products. This is the highest level in the 11 years that Grant Thornton has conducted this survey.

We think that with a loose fiscal policy and growing demand pressures, additional growth support from monetary policy should be limited. In our opinion, the accelerating current inflation and high inflation forecasts, which are likely to be presented in the November projection update by the NBP, should build a majority in the MPC in favor of another rate hike in Poland as early as next week's Council meeting. We expect a continuation of the cycle of rate hikes to c.2% at the turn of 2022-2023.

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