Poland: CPI inflation unchanged in July

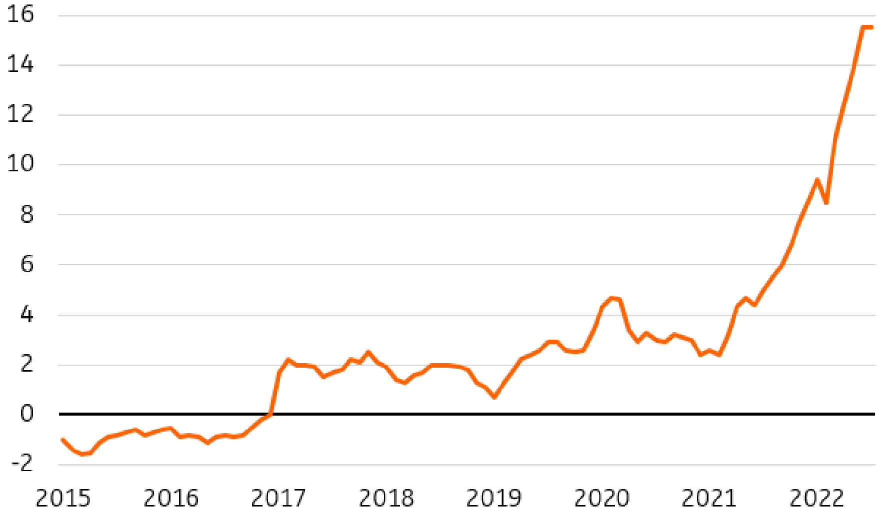
Poland's annual CPI inflation in July remained unchanged from June, at 15.5% year-on-year, thanks to a temporary summer cut in gasoline prices. There is no reason for complacency for the Monetary Policy Council (MPC) as inflation is expected to increase further after the summer. More rate hikes are expected this year

Inflation is outpacing wage growth in Poland

Annual inflation unchanged in July

Consumer prices rose 15.5% year-on-year in July (ING: 15.4% YoY; consensus: 15.5% YoY), following a 15.5% YoY increase in June. The annual inflation rate stayed the same for the first time since February when the indirect tax cuts under the anti-inflation shield took effect. As expected, July brought a decline in fuel prices (-2.6% YoY), helped by the summer promotion of a major player in the domestic fuel market, which forced similar price moves by its competitors. Had fuel prices remained at June levels, July inflation would have risen to 15.7% YoY. Food prices rose by 0.6% month-on-month, i.e. at a similar pace to June, but slower than in April and May. Energy carriers, on the other hand, rose 1.6% MoM, most likely due to further increases in coal prices. Based on today's data release, we estimate that core inflation in July, excluding food and energy prices, was close to August levels and reached around 9.2% YoY.

CPI inflation, %YoY



Source: GUS.

Further increases in inflation and interest rates expected in the autumn

Despite a stabilisation in July, inflation is far from contained. The inflation target remains very distant (2.5%), real interest rates are still deeply negative, and fiscal policy is significantly easing the impact of monetary tightening. Inflationary pressures may be restrained in the coming quarters by the economic downturn in Poland and globally. At the same time, the energy crisis and increases in regulated prices will have the opposite effect. A significant increase in the minimum wage (13.5%) and a high indexation of pensions are to come in 2023, which will sustain wage pressure. This means that consumer prices could continue to grow at double-digit rates in 2023. We expect the MPC to continue raising interest rates after the summer, albeit on a smaller scale (by 25bp). This will be accompanied by signals that policymakers are about to end the monetary tightening cycle. Given the deteriorating economic outlook, the policy rate may not reach the 8.5% we previously expected.

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