

Poland: July inflation sets new 2022 record

July CPI has been revised to 15.6% year-on-year, the highest level so far in 2022. Yet the inflation peak is still ahead of us and we expect it in the autumn as the heating season begins and drives up prices. The Monetary Policy Council (MPC) will be forced to hike rates further



New inflation record for 2022

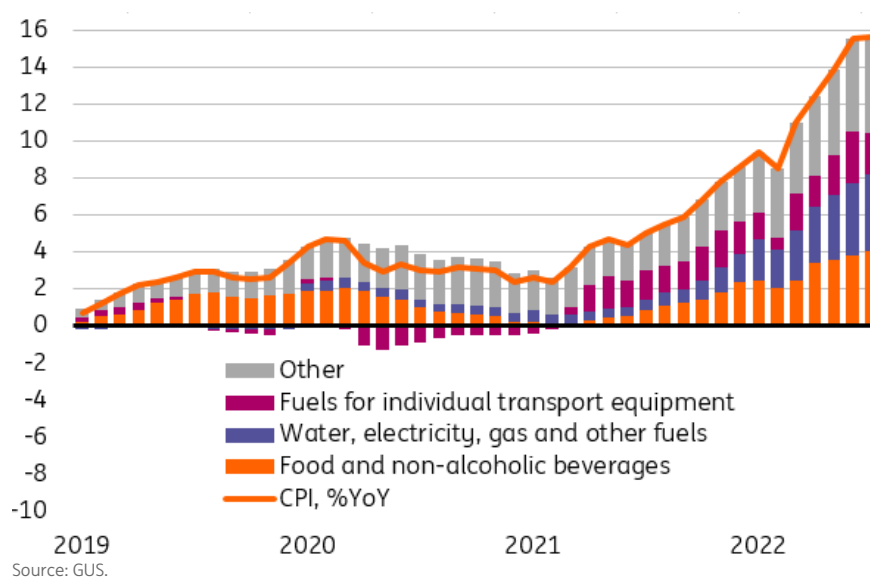
The July inflation estimate has been revised to 15.6% year-on-year, from the 15.5% YoY reported previously. Thus, consumer inflation set a new record this year. Goods prices rose by 16.9% YoY, while services prices increased by 11.7% YoY, up from 16.8% YoY and 11.5% YoY, respectively, a month earlier.

On a monthly basis, prices rose by 0.5%, the slowest rise since February, when indirect tax cuts under the Anti-Inflation Shield, including lower VAT on food, took effect. Fuel prices fell by 2.6% month-on-month in July, while prices of energy carriers increased by 1.6% MoM, mainly driven by a further increase in the price of heating fuels (5.0% MoM). Food price increases were slightly lower (0.5% MoM) than those seen in June. The upward pressure on meat prices has eased somewhat in recent months. There are also seasonal reductions in the prices of fruit and vegetables. On the

other hand, sugar prices rose strongly (7% MoM).

On the basis of detailed July CPI data, we estimate that core inflation rose to around 9.2% YoY last month from 9.1% YoY in June. Among the underlying categories, the significant price increase in the 'recreation and culture' category is noteworthy, boosted by increases in package holidays (especially abroad) and increases in radio and TV charges. We are continuing to see high price growth in restaurants and hotels as well. Compared to July 2021, prices in this category were 16.4% higher.

CPI inflation and its composition, %YoY, percentage points



Inflation to rise further in the autumn

The scale of the price increase in July does not give room for complacency for the MPC. Although the holiday period brings a deceleration in inflation and we may even witness a slight decline in August (thanks to cheaper gasoline), we set another record this year, with prices rising by double-digit levels on an annual basis. Furthermore, we expect that this year's peak in inflation is still ahead of us. Our forecasts indicate that upward pressure on prices will intensify again in the autumn, driven by factors including (1) the end of the summer promotion at the largest fuel distributor, (2) further increases in fuel prices as the heating season begins, and (3) increases in regulated prices, including electricity, heating, water and sewerage charges. Food prices are also likely to rise. High electricity and fuel costs are driving up the cost of storing and transporting goods (logistics), prompting retail chains to raise prices. Moreover, another significant increase in regulated prices is expected in early 2023.

More rate hikes ahead

Inflation, therefore, is far from being under control and the MPC will be forced to hike interest rates further, albeit on a much smaller scale than we saw in the first half of this year. The National Bank of Poland is unlikely to hike rates to the 8.5% level we expected earlier this year.

In the context of still high inflation risks, declarations by some policymakers that the end of the

interest rate hiking cycle is near, and that rate cuts may come in 2023, are in our view premature and may result in zloty depreciation.

Author

Adam Antoniuk

Senior Economist, Poland

adam.antoniuk@ing.pl

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