

## Inflation in Poland may soon hit 6%

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Customers shopping in Wrocław, Poland

# 5.5%

CPI in August (year-on-year)

flash estimate at 5.4%

Higher than expected

In August, the CPI in Poland accelerated to 5.5% YoY from 5.0% in July. This is 0.1ppt more than the Central Statistical Office's flash estimate from early September. What the CSO underestimated was the increase in energy prices due to a 12.4% rise in natural gas prices for households. In August, prices of energy rose by 6.6% YoY instead of the 6.1% initially assumed. The figures indicate that core inflation remains persistently high in Poland. We estimate that it rose to 3.9% YoY from 3.7% in July.

Detailed data shows price increases in basically all of the major aggregates. Service prices accelerated to 6.6% YoY from 6.2% in July. After the opening of the economy, restaurateurs and hoteliers raised prices, and the cost of organised tourism abroad also increased. As we wrote in our commentary on the preliminary data, businesses in these sectors are benefiting from the shift in demand following the loosening of restrictions. Telecommunications and transportation prices accelerated as well.

Producers also raised prices more strongly. In August, prices of goods were higher by 5.1% YoY compared to 4.6% in July. Manufacturers are taking advantage of the continuing high demand both domestically and abroad to pass rising costs onto consumers.

CSO data confirms the view we have held for about a year. The structure of GDP in Poland is pro-inflationary, with a decreasing share of private investment. This already pushed inflation up to close to 5% before the pandemic. Now, rebounding demand has faced supply constraints, which are likely to continue next year. All this is pushing inflation higher, and there will be no post-recession decline of CPI in Poland. Further stimulation of consumption is ahead of us through the income redistribution proposed in the Polish Deal. We will also face the lagged effects on CPI from the near-9% PPI inflation.

Despite recent dovish statements from National Bank of Poland Governor Adam Glapiński, our baseline scenario still assumes a first rate hike in Poland in November, when the NBP updates its projections. We believe that the new projection will bring an even higher CPI than the one presented in July, even though it was already high (3.3% on average in 2022 and 3.5% in the second half of 2023, with core inflation averaging 3.5% in 2023). A recent interview with Glapiński seems to confirm this view. The governor stated that it is very likely that despite the decline in inflation, it would exceed 3.5% in 2022. We estimate that average inflation next year might be almost 4.0%.

Such a projection update with inflation above the upper band of the Bank's tolerance limit, high core inflation (we estimate it to be about 3.7% on average in 2022) and a strong economy (GDP growth of about 5%) should help to build a majority in the MPC in favour of a rate hike later this year. In our opinion, high CPI readings for November and December will be the deciding factor here. We expect that at the end of the year, CPI inflation in Poland may approach 6%.