

Inflation in Poland hits 20-year high

Strong inflation and a likely move above 5.5% in December reinforces our view of a November rate hike



5.4%

CPI in August (year-on-year)

Consensus at 5.2%

Higher than expected

In August, CPI in Poland accelerated to 5.4% year-on-year from 5.0% in July, more than expected (consensus and ING +5.2% YoY). The acceleration is due to gas price increases this month (+12.4%, which boosted the price of energy to 6.1% YoY from 5.3% in July), high food prices (+3.9%) and the persistently high, and recently increasing, core inflation (we estimate it at 3.9% YoY compared to 3.7% in July).

We have been writing since the beginning of the year that there will be no post-recession decline in core CPI in Poland. High inflation was already entrenched before the pandemic, and after the Covid-19 outbreak, new risks have appeared from commodity prices, supply chain disruptions and large global fiscal stimulus. Central banks in the central and eastern European region say CPI is a bigger concern than the fourth wave of Covid-19.

We won't know the detailed pattern of price changes until 15 September. In our view, the strong growth in prices of services continued in August, especially those related to tourism and recreation, where consumer demand shifted after the loosening of health restrictions. Rising production costs should also keep commodity prices elevated.

The last time the country saw inflation higher than 5.0% was 2001. That was a year when, for the first time, central banks managed to keep annual CPI rates below 7.5% and the National Bank of Poland was still building its credibility after the inflation shock when the economic transition began. For the next 20 years, until August 2021, CPI inflation was below 5%.

Compared to December, prices in Poland have already risen by 4.7%; in July prices were up 4.5%. This indicates that the elevated inflation has only been slightly lifted by base effects from last year. We have to bear in mind that even before the pandemic, price growth in Poland was close to 5%. Apart from regulatory factors, the high CPI is caused by the structure of GDP which strongly relies on consumption, while investment is exceptionally weak. Consumer demand will be further stimulated by fiscal changes in the Polish Deal, which, in addition to the delayed impact of rising PPI, should keep inflation high next year as well. We estimate that, on average in 2022, CPI inflation may reach 3.9% YoY, only slightly lower than this year's average (ca. 4.5%).

Elevated inflation, with strong odds of reaching 5.5% YoY in December, reinforces our expectation for an initial rate hike in November. Jerzy Kropiwnicki from the MPC recently declared his support for the rate hike. Along with the support of the three more hawkish MPC members, this gives four votes in favour of such a move in the council. The November inflation projection should also call for a tightening, in our view.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security

discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.