

## 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.

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