Poland’s government acts again as inflation hits 8.6%

CPI inflation rose to 8.6% Year-on-Year in Poland in December. That's despite measures such as temporary cuts to things like VAT and excise duty. The government's beefing up its so-called 'anti-inflation shield'

Poland's Prime Minister, Mateusz Morawiecki, has announced more action against inflation

Poland's CPI inflation increased to 8.6% YoY in December 2021, the highest level seen last year. In annual terms, food price growth also accelerated to 8.6% YoY, while electricity, gas, and other fuels were 14.3% more expensive.

Consumers felt the benefit of cuts in excise duty on gasoline and diesel and price growth here was halted. Given the available data, we estimate that core inflation excluding food and energy prices went up to 5.3% YoY.

We expect elevated inflation in 2022 and annual average CPI growth of 7.7%. First, companies will pass on higher energy and other input prices to final consumers; buoyant demand growth and higher wages will mitigate that. Second, the growth in food prices is projected to be robust due to the soaring cost of fertilizer, among other things. Thirdly, a tight labour market and upward pressure on wages increase the risk of a wage-price spiral.

Further increases in inflation will be mitigated by government measures; the so-called “anti-inflation shield". Today, the Prime Minister, Mateusz Morawiecki, announced that next week the government will bring in its 'Anti-inflation Shield 2.0' that will include a VAT cut on gasoline and diesel to 8% for 6 months, starting in February. Authorities expect it to reduce pump prices by some 60-70 grosz per liter. We should also learn more about if and when 0% VAT on food will be implemented.

Reversing the tax cuts will be a tough political decision

These government actions to limit inflation via indirect taxes delay the unavoidable consequences of the rise in energy prices. They will undoubtedly flatten the CPI path this year while extending its elevated level over time. Moreover, returning taxes to their original levels will be a tough political decision as it would result in a rapid jump in the price of fuel and energy.

Facing the prospect of prolonged inflation, the National Bank of Poland is expected to continue hiking rates. The scale of tightening so far in Poland is significantly lower compared to other CEE counterparts, notably Czechia and Hungary. Given today's CPI numbers, the MPC may decide to go for another 50bps hike in February. We expect the reference rate to reach 4% by the end of the year and 4.5% next year.

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