

## Poland: An expensive Easter this year

Poland's CPI inflation keeps surprising to the upside. In April consumer prices went up by 12.3% YoY on the back of soaring food prices and further growth of core inflation. The Monetary Policy Council has no other option but to tighten its policy further. We expect a 100bp rate hike in May and a terminal rate in the 7.5-10% range



Food and beverage prices rose 1.6% month-on-month vs. our estimate of 1%

Headline inflation continued rising in April. Consumer prices jumped up by 12.3% year-on-year (ING: 11.8% YoY; consensus: 11.7% YoY) after increasing by 11.0% YoY in March. Inflation reached the highest level since 1998.

## Headline inflation increased to levels not seen since 1998

CPI, %YoY



Source: GUS

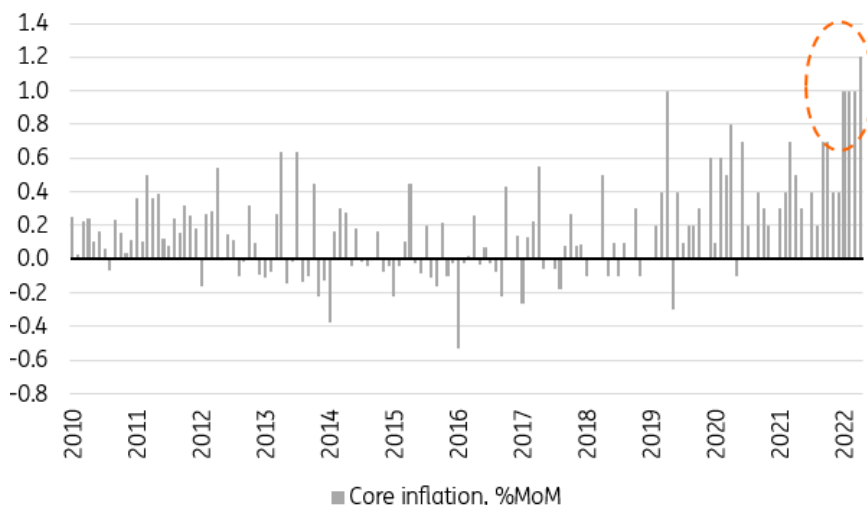
### The drivers of high CPI: Food prices boosted CPI but core inflation is also rising sharply

Food prices increased by a hefty 4.2% month-on-month – a jump not seen in the last two decades. In annual terms food prices are rising at double-digit prices (12.7%) for the first time since late 2000. The gasoline price decline was negligible (-0.8% MoM), while the cost of energy for house maintenance increased 2.4% MoM.

Not only is food and energy driving inflation, but core inflation is also rising sharply. We estimate that core inflation excluding food and energy prices rose by 1.2% MoM, reaching dynamics of 1% or more for the fourth consecutive month. Such a momentum was never seen before (in 1998 we had two months in a row with over 2% dynamics). According to our calculations in April core inflation rose to 7.7% YoY from 6.9% YoY in March, hitting the highest level since 2000. That means that apart from external shocks, consumer prices growth has a significant local component as the consumption boom allows businesses to pass higher costs to retail prices. We already had an inflationary environment before the pandemic and afterwards the economy was hit by two consecutive external shocks, ie, Covid-19 and the war in Ukraine. Fiscal expansion is additionally supporting domestic price developments, which is reflected in core inflation.

## High momentum of core inflation

Core inflation excluding food & energy prices



Source: GUS

## Further inflation growth ahead

External price shocks will continue propagating throughout the Polish economy as the current economic and policy environment facilitate it. Rising costs of energy and inputs force enterprises to increase their prices. Cost pressure is amplified by the rising cost of labour (double-digit growth of wages). Swelling households' income and expansionary fiscal policy make it easy for businesses to pass higher costs to consumers. We currently predict local peaks of inflation around 13-15% YoY in mid-2022 and at the beginning of 2023 but recent months show that economic reality keeps surprising and we should be prepared for more negative scenarios with respect to price developments.

## Monetary policy outlook

Inflation remains the main macroeconomic challenge for Poland in the near term. A tight labour market and solid economic growth at the beginning of the year allow the Monetary Policy Council to focus on fighting price growth. The current geopolitical environment (shifts in energy supplies sources in Poland and Europe) means that an expected economic slowdown may not bring a significant decline in price tensions.

Deeply negative real interest rates means that the scope for monetary tightening remains sizable. We expect the MPC to hike National Bank of Poland rates by 100bp in May and we may see the main policy rate at 7.5% already this year. The terminal rate moves to 7.5-10% and a double-digit policy rate is no longer just a theoretical level.

## Author

### Rafal Benecki

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

### Adam Antoniak

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

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