

## Poland: Another upside CPI surprise in August

According to the flash estimate, CPI rose to 16.1% year-on-year in August from 15.6% YoY in July, brutally dashing the market's hopes for a slight decline



Increases in the prices of food and beverages were a bit higher than estimates

Every individual component is responsible for the upside surprise in Poland's August CPI. Increases in the prices of food and beverages were a bit higher than estimates (+1.6% month-on-month) and energy carriers (+3.7% MoM) overshadowed the expected significant drop in petrol prices (-8.3% MoM). The increases in energy prices are most likely due to coal prices rising faster than we expected. In addition, core inflation remains on an upward trend. We estimate that it rose to nearly 10% year-on-year in August and the sequential MoM growth of CPI also reaccelerated due to the pressure of a weaker Polish złoty and energy.

There were no signs of an end to the upward pressure on prices this month. Moreover, we expect the next few months to bring further increases in CPI. The economy should absorb the next energy shock due to more expensive electricity, natural gas, and coal and higher heating costs.

The key factor for the 2023 inflation outlook is the scale of the increase in regulated prices when the new energy tariffs are launched in early 2023. If the government is ready to pay significant compensation to gas and electricity distributors, the scale of the increase in their prices could be

lower than the cost of supplying them. But freezing energy prices at the unchanged level is too expensive for the government. The fiscal support for sensitive (energy-intensive) industries may also somewhat reduce the upward pressure on companies' costs and the translation of these factors into the final prices of their products and services. This does not change the fact that the inflation outlook continues to look unfavourable.

Our baseline scenario assumes a further rise in inflation after the holidays and another peak in early 2023, i.e. after the new gas and electricity tariffs are launched. These are not circumstances that allow the Monetary Policy Council to promptly end the rate hike cycle. We expect the MPC to raise interest rates by 25bp next week to 6.75%. We downgraded our terminal rate forecast from 8.5% to 7-7.5%, but we still think the comments pointing to a near end in hikes and cuts in 2023 are overstretched. Today's data support our view. The market is pricing a terminal rate at 7.5% and this should stay as it is in the coming days given the high sensitivity of the MPC to the economic slowdown.

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