

Poland's anti-inflation 'shield' will only temporarily slow CPI

The Polish government's anti-inflation shield should trim 2022's first-quarter CPI spike but will add to price growth for the rest of the year. It's likely only to add to wage and demand pressures. This may slow the central bank's rate hike path as we enter the new year, but accelerate it later on



A shopper in Warsaw

The Polish government's set out a programme to curb inflation; it includes the following measures:

1. A cut in VAT and excise on energy and natural gas for three months, which deducts 0.7pp from the headline CPI. It temporarily alleviates the impact of increasing energy bills which usually takes place at the beginning of the year;
2. A reduction in taxes on fuels for five months, which deducts 0.25pp from the headline CPI temporarily.

However, at the same time, the government plans to introduce a one-time benefit of 400-1,150 zlotys per family, depending on income. This is another fiscal push towards higher consumption.

The anti-inflation shield doesn't alter our view on inflation past the first half of next year. It will only

temporarily limit the impact of rising energy and fuel prices, at the same adding to the ongoing spending spree. The peak of the headline CPI in 1Q22 should now be closer to 7%, rather than 8% YoY.

Benefits introduced in the anti-inflation shield add to other elements of the policy mix, which are inflationary. In 2022 the minimum wage is set to grow by 7%, while personal income taxes will be cut for low earners as a part of the Polish Deal. But that 'deal' effectively raises taxes for the higher paid, so companies will likely be forced to compensate for this, as the labour market is very tight. While the Polish Deal indeed lowers the tax wedge, so encouraging higher labour force participation, which is disinflationary, there'll be a long delay before we see its effects.

Overall, this is a mix of factors stimulating both wage growth and strong demand, allowing companies to pass their rising costs onto consumers. Companies should plan for higher costs in the future, amplifying the second-round effects.

As such we expect the anti-inflation shield to potentially slow MPC rate hikes in 1Q22. However, as it increases demand and wage pressures, it calls for an even stronger monetary tightening later on.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

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