Poland: Core CPI remains high, defying central bank expectations

We expect a higher CPI and GDP forecast to be released in the National Bank of Poland's July projection update. In our opinion, however, the Council won't be convinced of the stability of the recovery in Poland until the forecast update in November

Customers shopping in Wroclaw, Poland

4.7%

CPI in May (YoY)

Flash estimate at 4.8%

Lower than expected

The Central Statistical Office (CSO), in its final reading, revised its CPI inflation estimate for May to 4.7% year-on-year from 4.8% in the flash estimate. The factors responsible for the acceleration relative to April have not changed. These are fuel, due to the low base from last year, and food. The contribution of core CPI remained very high, ca. 2.2ppt of the 4.7% YoY headline inflation rate. We estimate core inflation at 4.0% YoY, 0.1ppt higher than in April.

The CPI structure shows that inflation in services remains high, at 6.8% YoY, as in April. The year-on-year growth rate of financial services prices is no longer in the double-digits. Instead in May, there was an acceleration in the cost of audiovisual subscriptions, and the contribution of transportation services prices to CPI is significantly less negative than in April. Commodity price inflation is on the rise, increasing to 4.1% YoY from 3.6% in April. This is partly due to higher furniture prices, probably as a result of rising costs of raw materials, but also due to higher prices of footwear.

Persistently high core CPI previously prompted us to revise up our CPI forecasts. We estimate that headline CPI in Poland may average 4.3% YoY this year and 3.8% YoY next year. We think that the MPC also recognises the risk of higher inflation, although so far the prevailing view is that it is temporary. In our opinion, inflation in Poland will not fall back any time soon. The disruption in supply chains may last until next year, when the demand-supply imbalance will be further amplified by an expected rebound in household consumption and Keynesian impulses in Poland, from the EU's Recovery Fund and the Polish Deal. This should sustain and may even accelerate core inflation in Poland in late 2022.

According to Adam Glapiński, governor of the NBP, a normalisation of monetary policy should be done conventionally: first asset purchases should be reduced, and then interest rates should be raised. The prerequisite, however, is a confirmation of GDP recovery and the appearance of demand pressures in CPI.

We expect that a higher CPI and GDP trajectory will be revealed in the July projection update by the NBP. In our opinion, however, the Council is unlikely to be convinced of the sustainability of the revival in Poland until the forecast updates in November. The need for GDP to return to pre-pandemic levels before fighting inflation has been recently pointed out by Jerzy Kropiwnicki from the MPC. According to Grażyna Ancyparowicz, the Council still has to take into account the risk of a pessimistic scenario in the July projection update.

The November projection update, apart from confirming the return of sustainable GDP growth, should also quantify any additional CPI pressures from the Polish Deal. This is expected to be generated by the changes aimed at increasing disposable incomes in Poland, especially households with lower wages and a higher propensity to consume. These changes, according to the government, are to be implemented soon.

The importance of the November projection for the monetary policy decision has also been recently pointed out by Eryk Łon, an ultra-dovish MPC member. This is why we maintain our view that a rate hike in Poland in November is possible.

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