

Poland: CPI accelerates, signalling possible 2021 rate hike

Data should prompt the National Bank of Poland to revise its inflation projection upwards in the July and November updates. This, combined with a strong economic recovery, may bring a rate hike in 2021



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4.8%

CPI in May (flash year-on-year)

in line with the market consensus

As expected

According to the flash estimate of the Central Statistical Office, headline CPI in May rose to 4.8% YoY from 4.3% in April, in line with our forecast and the consensus. As we expected, the acceleration is due to a higher pace of fuel prices, where the base from last year was even lower than for April 2021. Growth in food prices also accelerated, from 1.2% to 1.7% YoY. We will have more details on 15 June.

We estimate that core CPI in May was around 4% YoY, remaining above the upper limit of deviations allowed by the NBP (3.5%). The largest contributor to headline CPI growth is the core rate (2.2ppt), followed by fuel (1.7ppt), and food and energy (0.45ppt each).

Inflationary pressure in Poland remains high. So far, it has been supply-driven, with commodity prices and disruptions in supply chains fuelling the pressure. Not all of the high commodity prices have yet translated into CPI. Soon the demand pressure will join as well – fuelled by pent-up demand as well as the EU Recovery Fund and the Polish Deal (from 2022). The Finance Ministry has already started working on amendments to the Public Finance Act regarding the Stabilizing Expenditure Rule, which will provide additional room for a Keynesian fiscal impulse.

We estimate that CPI inflation in Poland will average 4.0-4.5% YoY this year, and 3.6% in 2022. Some of the MPC members have already recognised the risk of higher inflation, signalling the need for a rate hike to anchor inflation expectations. A Council majority in favour of monetary policy normalisation this year has been gradually building. This is evident in the latest statements by Grażyna Ancyparowicz and Rafal Sura (who have so far been in the dovish camp). We continue to believe that a change in the monetary policy stance in Poland will follow the pace of NBP projection updates (the first in July, the second in November), which are expected to bring higher CPI paths. Given the strength of the post-opening recovery (seen in PMIs) and the fact that not all of the high commodity prices and consumption boom have yet translated into CPI, the MPC is likely to decide on a hike in 2021 (the majority in the MPC is just forming).

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