

## Poland: CPI at 10-year high

Inflation accelerated across all components and it's not over yet. Elevated wholesale prices have yet to pass through to consumers and increased demand pressures will be seen from the economic recovery and fiscal stimulus. The high inflation reading in July supports our scenario of a rate hike before the end of the year



# 5.0%

CPI in July (YoY)

The consensus at 4.7%

Higher than expected

According to the flash estimate, CPI inflation accelerated from 4.4% to 5.0% year-on-year in July, the highest since May 2011. The jump is a result of rising prices in all categories: fuel (+30% YoY), food (+3.1%) and energy (+5.3%). We estimate July core inflation at 3.5-3.6% YoY, close to the 3.5% reading in June. The details will be published on 13 August. In our opinion, the lower core inflation relative to May (4.0% YoY) is caused by a high 2020 base, primarily reflecting the strong reopening effect in prices last summer, while this year the Euro2020 caused some price discounts

in RTV and multimedia. Thus, the reference point for annual growth rates is now higher and brings down the readings in year-on-year terms. However, this does not mean that core inflation is slowing down significantly. We estimate that in monthly terms it accelerated to 0.4% from 0% in June.

Moreover, we expect the next few months to continue to show an elevated core rate. We are yet to see the pass-through of high cost pressures in the PPI, for example. Starting at the end of 2021/beginning 2022 we also expect higher demand pressure. This should be driven by the ongoing recovery and a double fiscal stimulus (the EU Recovery Fund and tax changes under the Polish Deal). In addition, we assume that new social spending may emerge in 2022. Our long-term inflation forecasts (slightly higher than the latest National Bank of Poland projection) show that elevated core inflation should persist.

In July, the NBP erred on the side of caution with regards to hikes. But we think the high CPI reading in July again supports our non-consensus call for a November rate hike. First, the Council needs to know the impact of the fourth wave of Covid-19 (in our opinion, it should not be strong) and the effects of the final version of the proposed tax regulations under the Polish Deal. Public consultations on the proposed changes are expected to end in late August. In our view, the tax changes should be pro-inflationary. The July NBP projection does not take this into account, even though it indicates that CPI inflation will be at 3.5% YoY by 2023 - the upper limit of the acceptable deviation range. The November NBP projection should therefore show more evidence of growing demand pressure, and together with the 5% YoY headline CPI reading, this may trigger a rate hike. The high July inflation reading supports our scenario of a rate hike before the end of the year.

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