

## Rising Polish inflation unlikely to impact rates

Headline CPI accelerated to 3.2% YoY in March from 2.4% in February. The increase was primarily driven by rising fuel prices, but also accelerating goods and services inflation. But as the economy gradually opens up, stronger demand pressures are likely to emerge which is why we expect inflation to cross the 4% threshold soon



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**3.2% YoY** CPI in March  
In line with the flash estimate

Headline Polish inflation accelerated to 3.2% year-on-year from 2.4% in February. The increase was driven by rising fuel prices and accelerating inflation in services (to 7.3% YoY from 7.0%) and goods (to 1.9% YoY from 1.1%). We estimate that the core CPI rose to 3.9% YoY from 3.7% in February. It may soon break the 4% level.

The details show that the acceleration in the core was driven by higher prices of communications, including telephone and telefax services (8.3% y/y in March vs 5.9% y/y in February). Passenger vehicle prices were 0.5 percentage points higher than in February, while clothing and footwear prices dropped markedly (1.5pp) less than in February.

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*We expect inflation to rise above 3% in March and even cross the 4% threshold soon*

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Rising cost pressures drive the pick-up in Polish inflation. Companies are complaining about disruptions in supply chains, forcing them to look for alternative sources of supply. We estimate that PPI inflation in March accelerated to 3.5% YoY from 2.0% in February. Cost pressures are also reported by companies in other countries, including China and the US. Rapidly rising PPI in China with a lag of about three quarters should also be reflected in the core CPI in Poland.

As vaccination progresses and the economy gradually opens up, stronger demand pressures should also emerge soon. Hence, we expect inflation to rise above 3% in March and even cross the 4% threshold soon. This might happen temporarily in the coming months given the low base from last year but we think there is a much higher probability of this happening in the last quarter of the year.

The central bank says there is no demand pressure in Poland, as inflation excluding administered prices remains low (1.7% y/y in February). However, to a large extent, this is an outcome of relatively low YoY growths in food prices due to a high base in 2020. It should accelerate in the second half of 2021, which might complicate the central bank's current rhetoric but we think this is unlikely to impact the MPC's decision on continued accommodative monetary policy until the end of the term in mid-2022.

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