

## Poland: CPI may soon reach 5.0%

In our opinion, the next inflation projections from the National Bank of Poland should force the central bank to act. We expect a first rate hike in the first half of 2022 but do not rule out the risk that this could happen as early as late 2021



Shoppers at the Poznan City mall in Poland

# 4.3%

CPI in April (YoY)

In line with flash estimate

CPI inflation accelerated to 4.3% year-on-year in April from 3.2% in March. The figure was in line with the Central Statistical Office's flash estimate. The increase in CPI was driven by a low base effect, particularly for fuel (+28.1% YoY in April compared to +7.6% in March). In April, we also saw goods prices accelerate more strongly (by 3.6% YoY from 1.9% in March). Services price growth was slightly lower YoY (6.8% compared to 7.3% in March), mainly due to a weaker contribution from garbage collection fees and an 11.1% YoY drop in the price of transport services. This is probably the effect of an elevated base last year due to the imputation of prices at a time when some data was unavailable due to the lockdown.

We expect core inflation in April to have fallen to 3.6% YoY from 3.9% YoY in March. Unlike fuel prices, the April 2020 base for the core CPI was high (again due to the imputation of data) so net inflation (CPI excl. food, fuel and energy) slowed in YoY terms. Despite the decline, core inflation in YoY terms is still above the upper bound of the National Bank of Poland's target.

Inflationary pressure in Poland is high. For the time being, this is largely an effect of booming commodity prices and disruptions in supply chains. PMI surveys indicate that this is already translating into record increases in input prices, which manufacturers pass on to finished goods. In March, PPI inflation was at 3.9% YoY, in April it could be close to 5.0%.

The gradual reopening of the economy amid progress in vaccination should trigger price pressures from pent-up demand. Goods producers and service providers should use this opportunity to pass on rising costs to consumers. We have been arguing for some time that the recovery from the Covid-19 recession is going to be different from previous cycles. This time, households have the funds to quickly return to higher spending once the pandemic passes. The lagged impact of recession on the labour market and inflation should be quite limited this time round. Also, subsequent inflation readings in economies more advanced in the reopening process point to upward surprises in CPI.

In our opinion, average annual CPI inflation in Poland this year should reach 4.0% YoY. It should also remain at an elevated level of 3.4% next year. This is an effect of the unfavourable GDP structure in recent years, with a decreasing share of private investment. We believe that additional inflationary pressure will also be generated in 2022 by the fiscal stimulus from the Recovery Fund and the local budget.

Elevated inflation has forced the MPC to take a less dovish stance in its communications. For the time being, the prevailing view among most of the Council is that this is a temporary phenomenon, but we believe this is already changing and the next NBP inflation projection should force the NBP to act. We expect the first rate hike in Poland to take place in the first half of 2022 (as 7 out of 10 MPC members see their terms expire in 1Q22). However, we do not rule out a rate hike at the next inflation projection update in November 2021.

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