Poland: CPI nears 14%; rate hikes far from over

The Central Statistical Office (GUS) reported that inflation in May reached 13.9% year-on-year, the highest CPI reading since March 1998 and in line with expectations. Food prices are already decelerating (+1.3% month-on-month vs. +4.4% MoM in April) but energy is out of regulators' control (+3.4% MoM), and fuel keeps rising (+5% MoM)

Unfortunately, the data shows the fifth consecutive month of core inflation rising above 1% MoM (this time 1.2-1.3%). In annual terms, the core rate is already at 8.6%. This is a very worrying signal; external inflation may soon fade but the more dangerous internal inflation remains strong and is accelerating.

Wholesale markets suggest that food dynamics may slow in June, and the pressure of higher energy prices should fade after the heating season, but the main point of concern is core inflation. It shows that price pressures are quickly spilling over into other components. And second-round effects are getting stronger.

Policymakers in many countries are trying to prevent second-round effects by raising rates and tightening fiscal policy, even at the expense of an economic slowdown. In Poland, central bank tightening comes with fiscal easing (we estimate fiscal expansion at about 3% of GDP in 2022), which makes the policy mix only marginally restrictive. This will sustain strong consumption growth, making the inflation situation even worse. Such a rapid rise in core inflation supports our National Bank of Poland rate forecast of 8.5% and expectations that peak inflation will reach 15-20% YoY.

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