

## Polish inflation eases in June

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Polish inflation decreased from 4.7 to 4.4%YoY in June according to a flash reading, compared to the consensus of 4.6%. The main driver was the decline in core inflation from 4.0 to 3.5%YoY. The inflation will remain elevated though.

The large decline in core inflation is probably welcomed by the central bank who would like to wait before hiking interest rates, however, it is too early in our opinion. In June 2020, core inflation jumped by 0.7% month-on-month creating a high reference base for June 2021.

The elevated 2020 base was a result of several factors including statistical imputation of data by the central statistical office (lots of venues were still closed, so real prices were impossible to obtain) which probably overstated price dynamics in some categories in 2020, a partial reopening of the economy and a sudden jump of some prices, especially during the holiday period, and further increases of garbage collection costs.

These factors did not repeat on the same scale this year, however, other factors are likely to drive core prices higher in the coming months. The pent-up demand has not been fully released

yet, as so far, most of the 1H21 recovery has come from strong manufacturing.

In the fall, the funds from the Recovery Fund should start to come through, and from January 2022 the PIT rates will go down (for low and mid-earners) according to the Polish New Deal reform, which should sustain consumer demand at a high level in the coming quarters.

The supply will struggle to keep pace with the growing demand. Moreover, companies face cost pressures due to high raw material prices, shortage of some components (e.g. integrated circuits) and staff shortages. They are in a position to pass on higher costs to prices of final goods.

We expect the CPI to reach 4.2%YoY on average in 2021 and 3.8% in 2022.

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