Inflation in Poland on track to hit 10% in March

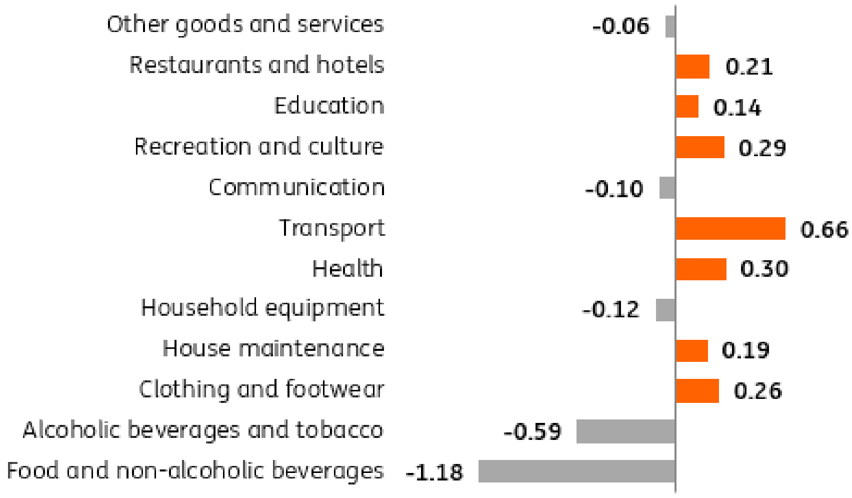
Consumer inflation moderated to 8.5% year-on-year in February as new elements of the anti-inflation shield kicked in, but it is set to rise to 10% year-on-year in March amid upward pressure from gasoline and food prices. CPI inflation may average 10% in 2022 despite government measures to tame it

In February, Poland cut the VAT on food, natural gas, electricity and central heating to zero

Consumer Price Index (CPI) inflation fell to 8.5% year-on-year in February (ING: 7.9%; consensus: 8.3% year-on-year) from 9.4% year-on-year in January (revised upwards from 9.2% year-on-year) and 8.6% year-on-year in December 2021. Price growth moderated because of new anti-inflation shield measures. In February, Poland cut the VAT on food, natural gas, electricity and central heating to zero. The VAT rate on gasoline and diesel went down from 23% to 8%. The anti-inflation shield triggered declines in food prices (1.1% month-on-month), energy for housing (1.2% month-on-month) and fuel at the pumps (8.1% month-on-month). Increases in electricity and central heating in monthly terms came as a surprise given cuts in VAT to 0%.

The March inflation report is always accompanied by an annual update of CPI basket weights. According to the StatOffice, the share of food declined – having risen during the pandemic – as consumers did not eat at home as often as they did during the pandemic lockdowns. At the same time, households spent more on services, namely transport as well as hospitality and leisure as mobility improved. The share of expenditure on house maintenance also increased slightly. Taking into account new basket weights, we estimate that core inflation excluding food and energy prices increased to 6.7% in February from 6.2% in January and 5.3% in December.

Changes to CPI basket weights, percentage points



The outbreak of the war in Ukraine has resulted in upward pressure on commodities, including energy and food. The new pro-inflationary factors largely compensate for the anti-inflation shields. We expect CPI to reach around 10% year-on-year in March. Assuming the shields are extended for the whole year, 2022 CPI should average around 10% year-on-year. In 2023, inflation should be only marginally lower, depending on political decisions about when to withdraw lower indirect tax rates introduced this year.

The prospect of a prolonged period of elevated inflation suggests that the ongoing rate hike cycle will continue. In 2022 we see the reference rate rising above 5%. Next year we expect further hikes amid a new wave of fiscal spending, both domestically and across Europe.

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