

Poland: January CPI below estimates but core inflation strengthened

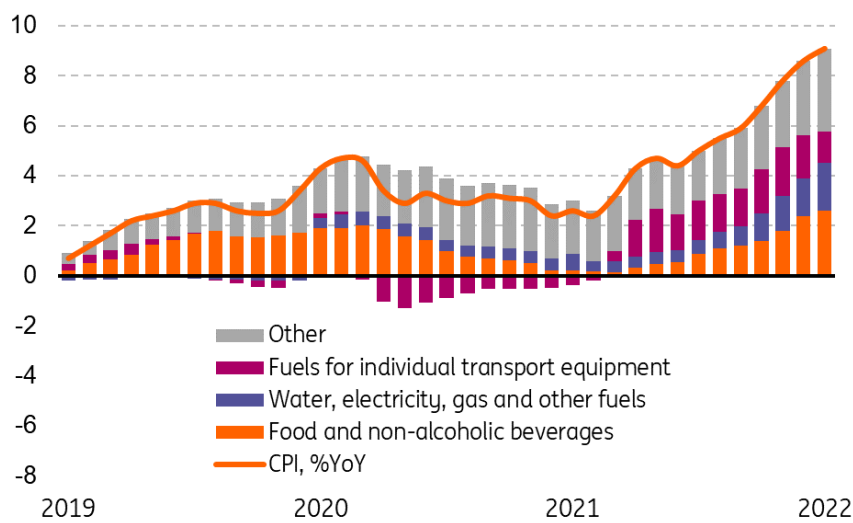
Headline inflation came at 9.2% year-on-year, below the consensus of 9.4% YoY. However, the core component rose to 6.1% YoY. Meanwhile, GDP grew 7.3% in the fourth quarter, according to a flash reading



A shopping mall in Warsaw, Poland

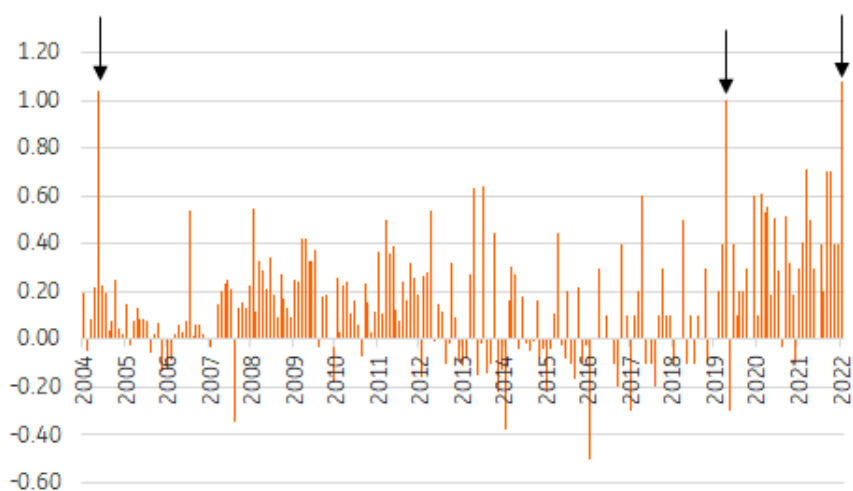
The rise in food and energy prices proved more moderate than we expected. Food prices rose just by 2.5% month-on-month. Energy prices grew in line with expectations (due to widely announced tariffs and anti-inflation shields), but other housing components, ie, rent, refuse collection etc were flat at the beginning of 2022. So overall growth in house maintenance costs was slightly below expectations.

CPI structure in Poland



On the other hand, the jump in core prices was stronger than expected. The core component rose by 6.1% YoY, the fastest rate since 2001. The monthly rise was high as well – 1.1%, a rate last seen in April 2019 and prior to this, after the EU accession in 2004.

Core inflation (net, %MoM)



Anti-inflation shields temporarily limited growth in administrated prices, but inflation spread into demand-driven categories, which cannot be regulated. We estimate that without the shields, headline CPI would have reached 10.5% YoY in January. The shields flattened the CPI peak, but the rise in core inflation was above expectations. Also, we note that an extension of the shields and other benefits would extend the period of elevated inflation.

The policy mix seems to be suboptimal, ie, the fiscal side is easing quite aggressively, while monetary policy is being tightened, though this works with a long lag. The above inflation backdrop and policy mix call for further hikes, otherwise the economy will end up with flat but

elevated and persistent CPI. Therefore we expect the National Bank of Poland to continue hiking rates towards 4.5% this year.

In 4Q21 GDP rose by 7.3% YoY and 1.7% quarter-on-quarter, from 5.3% and 2.3%, respectively, in 3Q21. We estimate that consumption increased by around 8% YoY, while investment expanded at a double-digit pace. Overall, 4Q21 GDP and consumption data suggest that companies can easily pass higher costs on to retail prices, while robust GDP growth and a tight labour market make a wage-price spiral very likely to happen in 2022. In coming quarters, we expect GDP growth to moderate, but not enough to tame inflation significantly. The fiscal expansion in coming months will aim to make the inflation shock less impactful on household spending.

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