

## Poland: Sharp rise in food prices pushes up inflation

In April, CPI increased to 12.4% year-on-year on the back of soaring food prices, but estimates also point to further growth of core inflation. It suggests mounting second-round effects and broad-based inflationary pressure. We expect a 75bps rate hike in June and a terminal rate of 8.5% with risks tilted to the upside



Inflation in Poland is set to continue rising in the coming months

### Sources of price growth

The StatOffice revised consumer prices growth in April to 12.4% year-on-year from 12.3% YoY indicated by the flash estimate. Compared with March, annual inflation increased by 1.4 percentage points (from 11%YoY to 12.4%YoY). Unseen in the last two decades, an upswing in food prices (4.4% month-on-month) was responsible for 0.9 percentage points of the mentioned increase. Substantial price growth was reported in the majority of food categories but was particularly strong in the case of meat. Prices of poultry jumped up by 14.4%YoY, while pork was 12.1% more expensive than in the corresponding month of last year.

## Inflation to continue rising in the coming months

CPI inflation, %YoY



Source: GUS, ING.

April inflation growth was not only stemming from more expensive food. Price growth is broad-based and expands into various price categories. Many of them are (1) not regulated nor (2) curbed by cuts in indirect taxes (VAT, excise duty). Energy sources are the perfect example of the former as price growth of 2.4%MoM was driven by liquid and solid fuels (9.2%MoM) and heat energy (1.5%MoM), which are outside the regulatory scope. The latter is reflected in the high momentum of core inflation that for the fourth consecutive month jumped up by 1.0%MoM or more. On the basis of available data, we estimate that core inflation excluding food and energy went up to 7.7%YoY in April from 6.9%YoY in March. The coming months are expected to bring a further increase and a local peak at the turn of 2022/23. Double-digit price growth is observed in both goods (13.1%YoY) and services (10.1%YoY).

## Inflation outlook

The inflationary picture emerging from April data suggests advanced second-round effects (passing higher costs of energy and commodities onto retail prices) and inflationary expectations de-anchoring. In our view, second-round effects are so strong because producers have no problems with passing rising costs of energy and materials and labour onto retail prices in the environment of buoyant wages growth and expansionary fiscal policy (tax cuts, higher spending) which is keeping consumption robust. That is our interpretation of the recent string of sharp monthly increases in core inflation in recent months (around 1.3%MoM in April).

Inflation is expected to expand further onto categories other than food, energy and fuels in the coming months. Our estimates indicate that retail prices do not yet fully reflect earlier external price shocks (the impact of war in Ukraine on energy and other commodities). This process will take two to three quarters and should be continued at least until the end of this year. The recent growth in labour costs and more expensive energy and materials will continue to drive core inflation northwards. The rapid growth of food prices is increasingly worrisome too. In 4Q22 CPI inflation may increase towards 15%YoY and the odds of double-digit price growth in 2023 are

rising.

## Further rate hikes ahead

In our opinion, the broad-based character of current inflation is one of the main reasons why the Monetary Policy Committee (MPC) presented ultra-hawkish policy bias in May. Another important factor behind such a policy stance is the current policy mix, where monetary tightening is accompanied by fiscal expansion. As a result, the tightening provided by the combined monetary and fiscal policy is still moderate. The fiscal policy calls for a more restrictive monetary policy. Real interest rates are deep in the negative territory, leaving substantial room for further rate hikes. In June, the MPC may hike rates by 75bps and the main policy rate is likely to reach 7.5% before the end of this year. We see a terminal rate at 8.5% with upside risks if the period of elevated inflation becomes more prolonged. In our view, any rate cuts before the end of 2023 seem unlikely.

## Authors

### Rafal Benecki

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

### Adam Antoniuk

Senior Economist

[adam.antoniuk@ing.pl](mailto:adam.antoniuk@ing.pl)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.