

## Polish CPI revised up; inflation to stay sticky next year

We expect goods prices to accelerate, as producers are passing rising costs onto consumers. CPI should break above 6% in October and head close to 7% in December. In 2022, average inflation should stay at 4.8% year-on-year, as seen this year



Customers shopping in Wrocław, Poland

CPI was revised to 5.9% YoY from 5.8% in the flash estimate. The increase is due to a stronger increase in the core CPI. This is worrying, as the probability of high inflation in the coming quarters is growing. Accelerating inflation (5.5% in August) is also driven by high prices of fuel (28.6% YoY), food (4.4% YoY) and energy (7.3% YoY). The inflationary effect of supply factors will grow due to the hike in gas prices in October and high oil prices on global markets.

We estimate that in September, core CPI rose to 4.2% YoY from 3.9% in August. In month-on-month terms, it accelerated by about 0.9%, the strongest since April 2019. The rise in goods prices was also higher, at 5.6% YoY vs 5.1% in August. Manufacturers are passing rising costs from the commodity shock onto consumers, capitalising on strong demand. Services prices also remained high, at 6.6% YoY, as in August.

We see inflation rising further, even reaching 7% in December. In our opinion, soaring commodity

prices will be gradually passed on to households. We expect another hike in energy prices in January, and possibly also in gas prices. The announced increase in excise tax on cigarettes and alcohol will probably add another 0.2-0.3ppt to average inflation next year.

## Outlook for 2022

In 2022, demand pressures are expected to have an increasing impact on CPI as well. The labour market is strong, the unemployment rate is falling, employers are looking for workers and are able to pay more for the required skills. The recent tax changes (Polish Deal) should also be pro-inflationary, as rising real incomes of less wealthy households should boost consumption and add to upward pressure on prices. Considering all the above factors, we expect average annual inflation to stay at 4.8% YoY, the same level as in 2021.

The MPC already reacted to higher inflation this month by raising interest rates by 40bps. The hawkish members of the Council had called for increases earlier. As MPC member Grażyna Ancyparowicz pointed out yesterday, the dovish camp supported the move, having been positively surprised by the macroeconomic figures from Poland, especially on the labour market, suggesting that the economy is already past the worst of the crisis.

In our opinion, the optimistic outlook for the economy will be confirmed in the November projection from the National Bank of Poland. It should show GDP growth at c.5% YoY until 2023, i.e. above potential. Demand pressure will thus increase. We also expect an upward revision to the inflation trajectory, above that from July, which showed CPI at an average of 3.4% in 2023. These factors, in addition to the expected break of CPI inflation above 6% in October, may trigger another hike in November, in our opinion by c.25 bps.

The market is pricing another c.50 bps of rate hikes by the end of the year. Should the NBP underdeliver and leaves rates flat, the Polish zloty could suffer, with EUR/PLN reaching 4.80. The escalating conflict with the European Commission does not help here either. A weaker zloty would only add to inflationary pressures in Poland. In the context of supply-side constraints for exporters, it is difficult to expect a strong acceleration in exports. At present, the weak zloty is resulting in imported high inflation from abroad.

Central banks in developed countries are calling for monetary policy normalisation despite the fact that high inflation has been caused by supply shocks, which are beyond the control of central banks. They are worried that high inflation caused by supply-side factors may lead to a rise in inflation expectations, which would make the fight against high inflation much more difficult than it is now.

The NBP seems to be too relaxed about rising inflation expectations. Inflation expectations seem to be less anchored in Poland than in developed markets. Also unlike DM countries, the Polish economy was suffering from high inflation even before the pandemic (4.7% YoY in February-20). Therefore, in our opinion, a 40bp rate hike is definitely insufficient. The central banks of the Czech Republic and Hungary have raised rates by 100 to 125 bps so far, and they may add another 100 bps to that. Hence, in our opinion, rate hikes in Poland to the level of 2% at the turn of 2022 and 2023 are very likely.

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