

Poland Economics Flash

Sharp rise in inflation, more to come

- Inflation rose to 4.3% YoY in April, beating our and consensus forecasts (3.7-3.9%). A large surprise was recorded in food prices (+1% MoM vs. our forecast 0.2%) but dynamic price growth was also visible in other categories. According to our quick estimates, the core inflation probably reached ~3.8% YoY in April.
- We have been arguing for some time that inflation risks in Poland are under-priced. Currency weakness, tight labour market and supply side constraints constitute a mix of factors that should be adding to inflation trends. It was not clear how long one would need to wait to see these factors affecting the CPI but today's inflation print suggests this pressure is already materializing. The planned reopening of the economy in May and June and the resulting rise in domestic demand are likely to put additional pressure on inflation.
- **We expect inflation to stay high also in the coming months.** Our forecasts show the CPI reaching 4.6% in May and fluctuating in 4-4.6% range in 2H21. Next year the CPI will remain on average close to 3.5%, in our view. Taking into account a mix of accommodative monetary and fiscal policies and strong growth, risks to our forecasts are skewed to the upside.
- **Central bank likely to downplay inflation trends.** Next week the Monetary Policy Council (MPC) will meet on its regular policy meeting and on Friday (7th May) governor Glapinski will hold his monthly press conference. It will be interesting to see if or how the official statement of the MPC will be changed in response to inflation. Given the track record or repeatedly dovish comments, we do not expect major changes in MPC rhetoric.
- For now, the most likely scenario is that of rates being stable at least until mid-2022. The wave of pay rates trades in recent weeks pushed the FRA curve higher, implying 0.25% reference rate in 1Q22 and 0.75-1% by the end of 2022. **We think the beginning of the rate hike cycle is more distant (the first rate hike from 0.1% to 0.5% in Sep 2022) but we see a risk that when the tightening cycle eventually begins it will be faster and more aggressive.**

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