

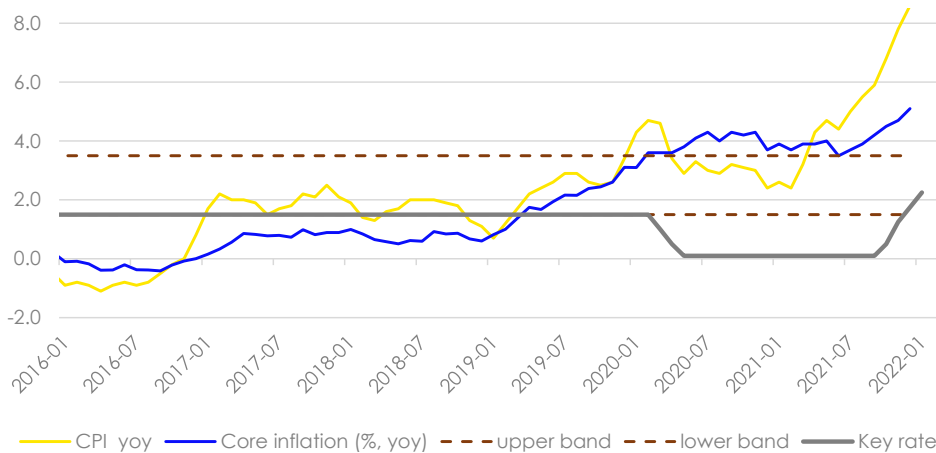
Poland Watch: CPI at 8.6% while NBP implies target key rate at 3% or more

The December CPI is likely still not the peak, with core inflation also on the rise. This supports the scenario implied by NBP of key rate rising to at least 3% soon, but also increases risks to growth (among other factors) leading us to cut our 2022 GDP growth estimate to 4.3%.

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December CPI at 8.6% yoy implies core inflation again grew to 5.1% - both set to rise further



NBP, RBI/Raiffeisen Research

RBI estimate of 5.1% core inflation in December 2021

CPI at 8.6% yoy and still not at its peak

The flash CPI reading for December repeated what we have observed for months — an upward surprise for an already high estimate. CPI was at 8.6% yoy in the last month of 2021, up from 7.8% in November.

The **main source of the surprise were food prices**, which grew substantially above the seasonal pattern at 2.1% mom (not seen in this century), confirming our expectations that high energy, fertiliser prices on top of the impact of meteorological conditions will lead to high food inflation this year. Fuel prices were also slightly above our expectations (0.2% mom) keeping the high annual dynamics (33% yoy).

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The flash data allow for a core inflation estimate of around 5.1% yoy vs 4.7% in November. This is likely not the peak yet, with upward risks amid unknown transmission of high energy prices into prices of goods and services.

Due to the planned **regulated energy price hikes** in January, still high core and food inflation, and little relief on the side of fuel prices, we expect CPI to rise above 9% in January which may still not be the peak. After some possible stabilisation, we assume the peak may occur around mid-2022. At the same time uncertainty remains very high with more risks to the upside (energy, food) but also some to the downside (possible further reactions from the **government**, awaited easing of the global supply-side bottlenecks). Nevertheless, our current 7.7% yoy average for 2022 remains at risk of higher outcome and 2023 outlook is for inflation to stay well above NBP target (average near 4-5% yoy).

Target rate above 3%?

This in turn **adds pressure on the MPC to continue raising the interest rates**. While the immediate impact on the high fuel, energy, or material costs is largely beyond the scope of monetary policy, the exchange rate channel and addressing inflation expectations also play an important role. In this regard, it is important not only that the MPC decided this week to hike rates by 50bp again (key rate at 2.25% currently) but also that **the Governor offered more forward guidance** on the further path. He pointed at **3% as a "safe" target level for this cycle**, while also implying a higher rate cannot be excluded. He also suggested 50bp is the default size of hikes while a decrease to 25bp would signal an end to the cycle. With that in mind, we can assume another 50bp hike for February, with 3% as the minimum target rate to be achieved in March. **Whether the cycle continues will likely depend on both domestic price and wage dynamics** as well as **the external situation** (energy, fuel, material prices). Meanwhile, also the changes to MPC members which will be occurring throughout H1 2022 increase uncertainty about the interest rate outlook.

2022 GDP outlook deteriorates

Finally, **in view of the risks to growth**, especially from the high energy prices and how they affect both households and firms, **we decided to lower our forecast for 2022 GDP growth from 5.1% yoy to 4.3% yoy**. This also reflects the delay in the disbursement of NGEU funds (which we still expect this year) and uncertainties about the external environment: Germany and the supply-side bottlenecks in particular. The latter has so far had a relatively mild impact on the Polish industry (which is partly why we raised the full 2021 GDP forecast to 5.5% yoy from 5.1%), but their prolonging character remains a risk factor.

MPC members to change gradually throughout H1 2022

MPC member	Bias poll	End of term	Nominated by
Grażyna Ancyparowicz	Neutral/Dove	January 2022	Sejm
Eugeniusz Gatnar	Hawk	January 2022	Senate
Jerzy Kropiwnicki	Neutral	January 2022	Senate
Eryk Łon	Dove	January 2022	Sejm
Łukasz Hardt	Hawk	February 2022	President
Kamil Zubelewicz	Hawk	February 2022	President
Jerzy Żyżyński	Neutral	March 2022	Sejm
Adam Glapiński	Dove	June 2022	Sejm
Rafał Sura	Neutral	November 2022	Senate
Cezary Kochalski	Dove	December 2025	President

Source: NBP, Polish Press Agency (June bias poll), Raiffeisen Research

Sejm - Lower Chamber of the Parliament

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
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
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
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