



Weekly Briefing

**Poland economy briefing:
The worrying rise in inflation
Konrad Rajca**

China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.
Szerkesztésért felelős személy: Chen Xin
Kiadásért felelős személy: Huang Ping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 office@china-cee.eu

 china-cee.eu

The worrying rise in inflation

Summary

Poland is reporting record level of inflation, which worries many economists and is felt by the society. In terms of the level of inflation Poland is in second place in the European Union (for the last six months Poland was in first place), behind only Hungary. According to experts, it is expected that the level of inflation will continue to be high due to increased demand in connection with the unfreezing of the economy, as well as rising fuel prices. According to many economists, it is necessary for the Monetary Policy Council of the National Bank of Poland to raise interest rates. However, for now it has no such plans and sees no threat from inflation to economic development.

Introduction

According to data from Poland's Central Statistical Office (GUS), consumer prices rose by 4.7 percent year-on-year in May. In April, the indicator was respectively 4.3 percent. According to Eurostat, inflation in Poland was 5.1 percent in April 2020, according to Eurostat criteria the level of inflation is highest in 20 years.

What is growing most expensive?

In the preliminary estimation of inflation in May, GUS provides only three basic products from the inflation basket. The highest year-on-year increase was recorded in fuel prices, which rose by 33 percent, followed by energy products with an increase of 4.4 percent, and food with a year-on-year increase of 1.7 percentⁱ. Data for April (known in more detail) show that the fastest annual growth rates were for banking services (47.6 per cent), fuel (28 per cent), garbage collection (27.8 percent), radio and TV fees (14.4 per cent), dental treatment (12.5 per cent), hairdressing services (10.5 percent), electricity (9.5 percent) and bread (5.7 per cent). Pork was cheaper (by 9.7 per cent)ⁱⁱ. Inflation in May significantly exceeded the inflation target of the National Bank of Poland. It amounts to 2.5 percent, with a possible deviation of one percentage point up or down. In short, the May reading exceeds the target by 1.3 per cent.

High inflation causes, among other things, a drop in interest rates on bank deposits. Some banks even mention the possibility of introducing negative interest rates on depositsⁱⁱⁱ, as well as a significant increase in real estate prices in Poland (inflation causes an increase in demand for real estate, as a safe way to secure capital). According to the National Bank of Poland, in

the first quarter of 2021 the average transaction price for an apartment from a developer in the seven largest Polish cities was 7.7 per cent higher than a year earlier^{iv}.

Monetary Policy Council sees no risk

Both the latest inflation data and forecasts for the coming months may provide guidance to the Monetary Policy Council (MPC) of the National Bank of Poland when setting interest rates in Poland. The fast pace of price increases may encourage the MPC to raise interest rates, as pointed out by many experts. This would translate into higher installments of housing loans, among other things. So far, however, there are no such announcements. At its June meeting, the Monetary Policy Council left interest rates unchanged. The main contributor to the inflation increase in May was a further increase in the annual dynamics of fuel prices - indicates the MPC in a press release. And it argues that the factors pushing up inflation at the moment are temporary, with a decline expected in 2022. The pandemic is abating, it pointed out, but its course remains a "major source of uncertainty" for the economy.

"The main contributors to the rise in inflation in May were the further increase in the annual growth rate of fuel prices associated with the sharply higher global oil prices than a year ago, as well as the rise in food prices. At the same time, the annual inflation rate continued to be pushed up by the increase in electricity prices, which took place at the beginning of this year, and increases in garbage collection fees, i.e. factors which, like the increase in commodity prices, are independent of domestic monetary policy. Higher inflation is also influenced by an increase in the costs of functioning of enterprises in pandemic conditions, as well as the costs of international transport and temporary disruptions in global supply networks" - reads the MPC release. It also points out that "the shape of inflation next year will depend on the durability of the economic recovery, including the future situation on the labour market after the completion of assistance programmes".

Some economists critical of National Bank of Poland's actions

During a press conference held in May, the President of the National Bank of Poland (NBP), Adam Glapiński, was asked about price increases in Poland. As he argued, it is "exclusively" due to higher fuel and food prices. - None of the elements of growth is subject to monetary policy. Regardless of interest rates and other elements of monetary policy, these prices have risen and nothing would change that - said Adam Glapiński. Leszek Balcerowicz, the former head of the National Bank of Poland, later commented on this statement on TVN television. - After something like that, he should immediately resign, it is a declaration of

capitulation - said the former deputy prime minister and finance minister. - Why is he the head of NBP if he cannot do anything about inflation? Besides, this is a lie. The inflation rate depends mainly on the interest rates - added Leszek Balcerowicz.

In May, on TVN24 television, Maciej Samcik, an economic journalist from the "Subjectively about finance" Subiektywnie o (finansach portal), also spoke about rising prices in Poland. - (...) The problem is a very large difference between the level of inflation and the level of interest rates, which is the interest rate on savings of Poles. This situation means that the National Bank of Poland is helping the government to finance the fight against the crisis with the savers' money - said Samcik.

Where does this inflation come from?

According to economist Professor Ryszard Bugaj, problems with inflation are largely the result of a pandemic. - Something like a demand overhang has arisen, and after lifting restrictions, it may collapse, not only in Poland - says Professor Bugaj in an interview with the portal businessinsider.pl. What does it mean? It means that Poles have been postponing the demand for certain goods and services for over a year. After the easing of restrictions, they will want to realize it. - We will have a demand shock in the economy - says professor Bugaj. And when demand increases, then, according to the eternal law of economics, the price must increase, which means that inflation will rise. According to Professor Bugaj, salary expectations may be of significant importance in the context of inflation. More and more professional groups expect wage increases after the pandemic.

Former Deputy Prime Minister and Minister of Finance Grzegorz Kołodko also spoke about the issue of rising inflation in Poland on the Polish TV channel TVN24. In his opinion, there are two mechanisms causing prices to rise. - Either they are pushed up by rising costs, or by excessive demand. I think that currently the latter mechanism is more important - said Kołodko. - A large inflationary potential has accumulated due to anti-crisis measures, pumping an enormous amount of money into the economy to counteract the economic effects of the pandemic, and now it has to be relieved - he added. The former deputy prime minister and finance minister points out that during the pandemic we could not spend money so freely and saving became compulsory.

Economists: inflation will continue to grow

According to Monika Kurtek, the chief economist at Post Bank (Bank Pocztowy), nothing indicates that inflation in the near future will return even to the upper deviation of the

NBP target, i.e. 3.5 per cent. - The opening of the economy, not only in Poland but in many other economies around the world at the same time, growing consumer and investment demand, problems with supply of raw materials and materials are the main factors driving price increases - she enumerates in an interview with the economic portal wyborcza.biz. ING Bank Śląski economists forecast that this year the inflation rate will amount to 4.0-4.5 per cent on average, and next year - 3.6 per cent^v. PKO Bank Polski economists, in turn, believe that the elevated inflation rate will remain in Poland "for years" and will be stimulated by the "Polish Deal", which is likely to increase the income of households with a higher propensity to consume. Economists also point out that the increase in inflation will also be fostered by the very weak zloty, which makes all imported supplies much more expensive. Experts of the Foundation for Civil Development Forum, if the price increases remain at current levels for the next year, and interest rates on current accounts and deposits remain unchanged, the average adult Pole will lose nearly 270 euros in real terms.^{vi}

Conclusion

Sustained high levels of inflation over the long term may affect the sustainable development of the Polish economy. Inflation is felt by the public and this topic is widely discussed in the media. The authorities recognize this issue, but currently, contrary to the warnings of many economists, they do not consider it as a threat to the development of the country, but as a result of the natural market situation, resulting mainly from external factors related to the pandemic and global markets.

ⁱ Poland's Central Statistical Office <https://stat.gov.pl/en/topics/prices-trade/price-indices/flash-estimate-of-the-consumer-price-index-in-may-2021,20,1.html>

ⁱⁱ Poland's Central Statistical Office <https://stat.gov.pl/en/topics/prices-trade/price-indices/consumer-price-indices-in-april-2021,2,108.html>

ⁱⁱⁱ <https://businessinsider.com.pl/finanse/ujemne-oprocentowanie-depozytow-mozliwe-banki-zabraly-glos/lp6gs8c>

^{iv} <https://mojafirma.infor.pl/nieruchomosci/finanse/5258169,Ceny-mieszkan-w-2021-roku-Coraz-drozej-i-taniej-nie-bedzie.html>

^v <https://businessinsider.com.pl/finanse/inflacja-najwyzsza-od-10-lat-jak-nie-stracic-pieniedzy/lwgh4qx>

^{vi} https://www.podatki.biz/artykuly/inflacja-najwyzsza-od-10-lat-koszty-moga-wyniesc-12-tys-zl-na-osobe_16_47533.htm