



Weekly Briefing

Poland economy briefing:
National Bank of Poland: inflation in 2022 at 14.3%
Konrad Rajca


China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: : Feng Zhongping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 office@china-cee.eu

 china-cee.eu

National Bank of Poland: inflation in 2022 at 14.3%

Summary

The National Bank of Poland (NBP) has presented forecasts for inflation in Poland, which is expected to be around 14.3 percent in 2022. According to NBP President Adam Glapinski, the main reason for the rising inflation in Poland is the increase in raw material and food prices caused by the war in Ukraine. According to the NBP report, the projected economic growth is also expected to be lower, at 4.7 percent in 2022. According to the NBP, there are also symptoms of deterioration in the Polish labor market. The NBP president said he would continue to raise interest rates, if inflation does not start to fall. He also said that during his term as head of the NBP, Poland will not enter the eurozone.

Introduction

The latest forecast by the National Bank of Poland (NBP) puts consumer inflation at 14.3 percent in Poland in 2022, in 2023 it will be at 12.3 percent, and in 2024 it will be 4.1 percent.ⁱ Despite better-than-expected economic data earlier this year, the NBP report published in mid-July downgraded forecasts for Poland's economic growth. According to the central bank, signs of a slowdown in the labor market are intensifying.

The war in Ukraine is raising inflation

Inflation in Poland with a 50% probability in 2022 will be in the range of 13.2-15.4% (vs. 9.3-12.2% in the March projection), the NBP estimates in a published report. The middle of this range is 14.3 percent, significantly higher than the 10.75 percent projected back in March. "The change in expectations between forecasting rounds was significantly influenced by the course of Russia's military aggression against Ukraine and its impact on the economy, " the report reads.

According to the NBP's forecasts, next year consumer inflation will begin to fall, but price growth in Poland will remain at double-digit annual levels. The NBP's projection assumes that the anti-inflationary shield (cuts in taxes and excise taxes on fuel and energy) will be in effect until October 2022, which will lower consumer inflation by 3.2 percent relative to the scenario without the shield. Inflation in Poland, according to preliminary data from the Central Statistical Office (CSO), rose to 15.6 percent in June 2022.

The latest NBP forecast calls for core inflation of 8.9 percent in 2022, 7.5 percent in 2023, and 4.2 percent in 2024. Core inflation refers to prices that are influenced by the central bank

(as opposed to, for example, commodity prices, which depend on the situation on global markets).

To put the brakes on price increases, the Monetary Policy Council since October 2021 has raised interest rates 10 times. During this time, the reference rate has risen from 0.1 percent to 6.5 percent.

Higher energy prices due to ban on coal imports from Russia

"The direction of higher energy prices is influenced by the April 13 law banning coal imports to Poland from Russia and Belarus, as well as the May 13 resolution adopted by the Polish government to terminate the agreement on Russian gas supplies from Russia. Poland has de facto stopped importing natural gas from Russia since April 27 this year, after Gazprom unilaterally broke the Yamal Contract, which was due to expire at the end of 2022." - reads the report.ⁱⁱ

"The continuation of Russia's military aggression against Ukraine, resulting in a strong reduction in the supply of some agricultural goods on world markets, has simultaneously influenced an increase in the food price inflation forecast. The revision is also the result of further increases in agricultural production costs, which include higher prices for feed grains and fertilizers (of which Russia and Belarus are major exporters) and energy. Rising production costs and prices of imported goods and services also translate into an upward revision of core inflation in 2022-2023." - NBP emphasizes.

Lower GDP growth

The NBP's July forecast calls for Poland's GDP growth in 2022 at 4.7 percent, in 2023 at 1.4 percent, and in 2024 at 2.2 percent. As the NBP points out, the downward revision of the GDP forecast is influenced by interest rate hikes and slowing economic activity abroad, among other factors.

According to the NPB, signs of a slowdown in the labor market are also intensifying in Poland, and demand for workers is likely to weaken. In May, the NBP points out, stagnation was evident in terms of employment dynamics. "The second surprise was lower wages. (...) This is the first time that wages turned out to be below market expectations, and this may suggest that this pressure is no longer growing so strongly," - Jacek Kotlowski, deputy director of the NBP's Department of Economic Analysis and Research, said at a press conference.

The National Bank President: inflation will return to standard levels in 2024

The Monetary Policy Council will raise interest rates if inflation rises; however, I hope it will not have to do so; Poland may experience a technical recession, National Bank of Poland (NBP) Governor Adam Glapinski said at a press conference in mid-July. He said that inflation should fall sharply next year, and in 2024 reach the upper band of deviations of the NBP target, i.e. 3.5 percent of its level.ⁱⁱⁱ

The situation is serious: we have a war across our border, we have an unspoken war through energy commodity prices by Russia," Glapinski said. The inflationary shock immediately after the pandemic was predictable, but it was wildly amplified by Russia's subsequent actions. The shock occurred because as a result of the pandemic we had supply barriers, shortages, bottlenecks - transportation, energy, rare metals and so on," he said.

He also referred to accusations that he delayed a long time in responding to rising prices. Initially, after the pandemic, many signals pointed to a temporary increase in inflation. I actually said so, on behalf of the National Bank of Poland (...) This is what all the central banks and all the international financial institutions said, that we are dealing with a temporary increase in inflation," he explained.

In his opinion, high inflation is global in nature. Unfortunately, it does not bypass Poland either. There is nothing we can do about it," said the National Bank of Poland president. He calculated that internal factors account for no more than 1/4 of inflation in Poland, and 75 percent is external.

Glapinski: I don't expect a recession in Poland

Glapinski explained that at meetings with central bank governors and international organizations, informal votes were taken on who expects a recession. As he stressed, more than 90 percent expect a crisis. I voted against, because in Poland I do not expect a recession. A technical recession is possible, for two quarters GDP may have negative growth. But this is not a recession," he said.

The NBP president reiterated that, according to the monetary authorities, the dynamics of price growth will peak during the vacations, and then gradually decline, including next year "significantly." He noted that the forecast for 2023 could be lower if the government extends the so-called anti-inflation shield.

Interest rates will be raised as long as inflation continues to rise

Forecasting the end of interest rate hikes, Glapinski said that "we are nearing the end of the monetary tightening cycle, although we haven't necessarily reached it yet." I would like that not to be the case, of course. I would like to see the process of lowering inflation rates begin

after the vacations, but this is a conditional assessment. Further decisions will always be made based on an assessment of incoming new data and forecasts. If inflation persistently continues to rise, we will raise rates. If it doesn't rise, we won't," the NBP president explained.

He explained that the weakening of the current zloty exchange rate flows from the tightening of monetary policy by the US Federal Reserve. What we are seeing now is a rise in the dollar against the euro, and we have a weaker exchange rate together with the euro. These are global processes in the global economy in the global financial market," he said.

Adam Glapinski also said that when selecting the new NBP president there was "tremendous pressure from one of our neighbors" to bring Poland into the eurozone. According to him, the idea was to elect a candidate who would be in favor of the euro. He later admitted that it was about Germany. As long as I am the president of the NBP Poland will not join the eurozone, he announced.

Conclusion

NBP forecasts indicate that Poland will record double-digit inflation by the end of 2023. Its level will be one of the higher in the European Union. This is due to both internal factors (the NBP's delayed response to the rise in inflation) and, above all, external factors caused by the rise in commodity and food prices due to the war in Ukraine. Inflation is also affected by the increase in gas and coal prices caused by the shift away from imports of Russian raw materials. High inflation will be accompanied this year by relatively high economic growth, which, however, will begin to decline significantly starting next year.

ⁱ The BusinessInsider Portal <https://businessinsider.com.pl/gospodarka/raport-o-inflacji-nbp-podal-nowe-prognozy-wzrostu-cen/3xg01y2>

ⁱⁱ The BusinessInsider Portal <https://businessinsider.com.pl/gospodarka/raport-o-inflacji-nbp-podal-nowe-prognozy-wzrostu-cen/3xg01y2>

ⁱⁱⁱ The Radio RMF FM https://www.rmfm24.pl/ekonomia/news-adam-glapinski-w-2024-roku-inflacja-wroci-do-celu-nbp,nld,6144310#crp_state=1