

Opinion of the Chief Economist of the Union of Entrepreneurs and Employers: What's coming up next with inflation?

The stress related to waiting for the next inflation readings has slightly eased. The Monetary Policy Council contributed to this state of affairs with their rather decisive, albeit delayed, decision to raise interest rates. This move resulted to some extent in restored credibility of the National Bank of Poland. Inflation readings in several countries of our region played an important role here: over the last month, they quite clearly exceeded inflation in Poland, thus signalling that it was not only a local problem. However, the risk of inflation remaining at least at the present level, or an even higher one, has not yet disappeared.

At the moment, a number of regulatory factors in Poland have a significant impact on the level of inflation. These include the so-called sectoral taxes (such as the sugar tax, the planned increase of excise duties etc.), rapid wage growth, post-COVID fiscal expansion, and persistently low real interest rates encouraging ill-considered and rash investments (for instance, on the housing market). However, it seems that what impacts the level of inflation to an even higher degree (and its ubiquity in Europe too) are factors of a supra-national nature, both those of a regulatory character and those resulting from the imbalance between supply and demand.

Inflation in Europe is driven in particular by rapidly rising prices of energy and energy resources. The prices of electricity, thermal coal and natural gas in Western European markets have reached very high levels. The reasons for such a state of affairs are twofold: the unrelenting imbalance on global markets (influenced by demand in Asia, increased for various reasons) and the European climate policy (both already in force and planned). Due to the market imbalance on a global scale, it is difficult to expect a lasting decline in gas and coal prices in the coming months (although some count on the Russian Federation to enforce a favourable policy on its natural gas which will flood Europe after Nord Stream 2 is put into use).

Quite surprisingly, Poland found itself in a fairly good situation. Both the size of conventional coal-based energy and long-term contracts for coal supplies from Polish mines that were concluded some time ago helped in this context. Since the share of energy in the Consumer Price Index (used to calculate consumer inflation) in CEE countries is relatively high compared to Western Europe, changes in energy prices are more noticeable here. Now, by complete coincidence, they have become an anchor that somewhat slows down the dynamics of inflation.

Nevertheless, it does not change the fact that with the persistence of both external and internal inflationary pressures, soon, or even now, inflation expectations may become a factor that maintains the unfavourable situation if not worsens it. We may still console ourselves, and some actually do so, that everything is fine, because wages are rising faster than inflation. But it would be best if we didn't forget that we are close to finding ourselves in an entirely different situation: in which the rate of inflation may exceed wage growth. Then there will be even less justification for the current monetary policy, and it will become even more difficult to control the situation.

Moreover, stagflation, a concept that was invented during the oil crisis of the 1970s, is returning to use, though perhaps it is a bit of an exaggeration for the time being. It describes a situation where high levels of exogenous inflation persist despite recession, depriving governments and banks of some anti-crisis policy tools. Concern about stagflation as well as rising prices of energy and energy resources can be seen all over Europe.

Currently, skyrocketing energy prices in Europe, at least during the upcoming winter, seem inevitable. And irrespective of rising wage expectations and the risk of pro-inflationary impact of the next wave of expansionary fiscal policy, they will have a significant and difficult-to-control impact on the rise in prices. Particularly in this context, rushed proposals of regulations, such as the aforementioned sectoral taxes, are cause for concern, as they might increase the risk of further price increases. In winter, prices will almost certainly be high for reasons beyond our control. Therefore, the government should refrain from actions that are burdened with the risk of triggering an inflationary spiral.

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