

# Impact of Inflation on Polish Economy: Economic Forecast for Poland in 2023

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## **Introduction**

A fast inflation is undesirable and hurts the entire economy. While in the first two decades of the 20<sup>th</sup> century it was not a worry for the population of Poland, the first half of the third decade of the 21st century will certainly be marked by rapidly rising prices. The first signs of this were already brought by the end of 2021, and the full scale of growth can be seen in 2022.

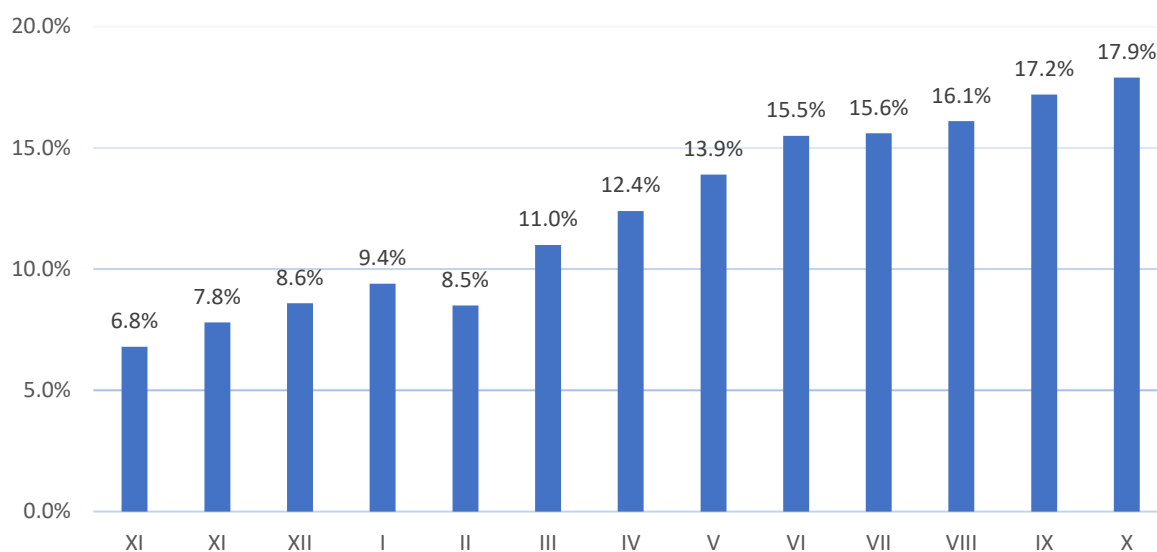
As of 2022, Inflation in Poland is one of the highest in the European Union reaching a level close to 18% on a yearly basis between November 2021 and November 2022. This level of inflation will remain for a long time in Poland due to several factors explained in the following paper. From a more theoretical perspective, the National Bank of Poland consider 2.5% as the upper range of the target of inflation (Polityka pieniężna: 2022), however as of November 2022, it would require a strong disinflationary shock in the global economy, which is not currently expected. High inflation means a decrease in the purchasing power of money and an increase in inequalities between the poorer and the rich. Retired people, despite of the support of the Polish government, are also facing with huge difficulties. The paper is structured in several chapters. The first chapter is dealing with the current situation. The second chapter is focused on the consequences of the inflation. Chapter three indicates the solutions proposed and applied by the polish government. The last chapter provides forecasts regarding the future inflation and GDP and inflation.

## **The current situation**

According to forecasts, consumer prices of goods and services increased by 17.9% on average year on year in October 2022, according to data from the Central Statistical Office. This is the highest inflation rate since December 1996, when it reached 18.5%. In comparison, the inflation in 2021 and 2020 were of 6.8%. October 2022 is also the 16<sup>th</sup> month in a row when the monthly inflation rate increased year-on-year. One exception is February 2022, when the inflation fell due to the introduction of anti-inflation shields in Poland. These shields will be presented below in the current paper.

The core inflation which does not include energy, food and fuel prices accelerated to 11.3% in October in comparison to 10.7 percent in September. This is the highest level within the last twelve months. An annual graph presenting the inflation is provided below:

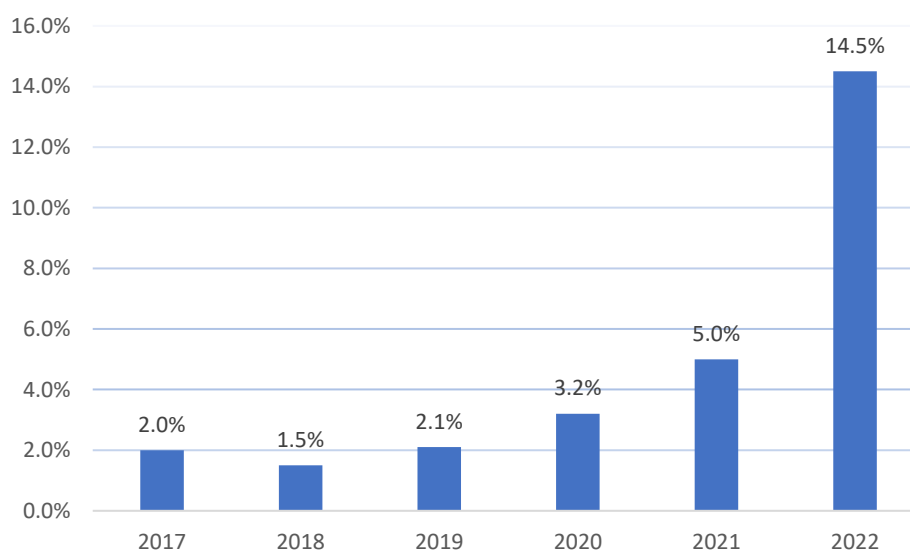
**Table 1: Inflation in Poland (Year to Year)**



*Source: Central Statistical Office*

The table presented below underlines the wide gap regarding the inflation in Poland for the last six years.

**Inflation in Poland between 2017 and 2022**



*Source: Business Insider*

## **Causes of the inflation**

There are two main causes of inflation in Poland: the increase in gas prices by several hundred percent and the increase in CO2 emission prices. The first caused an increase in fertilizer prices, the second, an increase in energy prices. Discussions are underway at European level to review this climate policy, which is bringing huge increases in energy prices. It must be underlined that the invasion of Ukraine by Russia increased only the pace of the inflation, which started to be high in Poland before the beginning of the previously mentioned international conflict caused by Russia and its leadership.

More expensive fertilizers mean higher production costs in agriculture. The current price of fertilizers is about PLN 2,600 per ton of ammonium nitrate at the official distributor of "Azoty" in Agrochem (Cena nawozów: 2022). This is the level of prices, although high, but still acceptable for farmers in Poland. When it comes to gas, the prices of this raw material fluctuate.

## **Consequences of the inflation in Poland**

The consequences of the inflation in Poland are visible for institutional and non-institutional economic units. The current yearly inflation represents two months of the annual wage of Poles. Inflation also hits the households of retirees and pensioners. According to the data of the Central Statistical Office, the average pension from ZUS is almost 7% lower actual value than a year ago. In the case of agricultural benefits from the agriculture insurance system named KRUS, the loss is even greater and amounts to 10%.

The increase of the price of inflation in Poland caused many bankruptcies in Poland. According to the data of the Ministry of Development and Technology, in the first half of 2022, 104.3 thous. companies closed their operations, and over 161.000 companies suspended them (*Firmy zwiijają żagle. Dramatyczne dane: 2022*). According to the Polish daily economic journal named "Puls Biznesu", it is over twenty-nine percent more than in the same period last year. Companies are suffering from high inflation and unfavorable tax changes implemented in 2022 (*Firmy zwiijają żagle. Dramatyczne dane: 2022*).

Inflation led to an increase of interest rates in Poland, which are now at their highest level since early 2003 and affect the economy in many ways. Interest rates mainly reduce the purchasing power of consumers with loans in zlotys with variable interest rates (primarily housing) because the installments of such mortgages can be even twice as high as a year ago. They also affect the decline in creditworthiness, the sale of new mortgage loans, and thus also real estate (this is usually accompanied by an increase in apartment rental prices, because many people cannot afford to buy their own premises). All this translates into lower activity in housing construction and threat this sector of the economy and a fall of seventy percent

regarding the demand of credits in Poland. The increase of the interests rates in Poland is presented below (*Podstawowe stopy procentowe NBP: 2022*).

### Interest rates in Poland

	04.01.2022	07.02.2022	08.03.2022	07.04.2022	06.05.2022	09.06.2022	08.07.2022	08.09.2022
Reference rates	2.25%	2.75%	3.50%	4.50%	5.25%	6.00%	6.50%	6.75%
Deposit rates	1.75%	2.25%	3.25%	4.00%	4.75%	5.50%	6.00%	6.25%
Lombard rates	2.75%	3.25%	4.25%	5.00%	5.75%	6.50%	7.00%	7.25%

*Source: NBP, as of October 15, 2022.*

### Solutions of the Polish government

To cope with the inflation, some anti-inflationary shields were applied and resulted in reduced value added tax rates on certain goods. This anti-inflation shield took place during 2022. The zero percent VAT rate covers basic food products, which was previously taxed at five percent. A zero percent VAT rate was also applied to fertilizers, plant protection products and other agents supporting agricultural production (instead of eight percent), as well as to natural gas (instead of twenty-three percent, and from February 1, 2022, eight percent). VAT changes were also applied to electricity and heat (instead of twenty-three percent, and from February 1, 2022, eight percent), and an eight percent VAT rate was commissioned on motor fuels (instead of the usual twenty-three percent). The anti-inflation shield lowers the excise duty rates to the EU minimum for electricity and some motor fuels, i.e., diesel oil, biocomponents constituting intrinsic fuels, petrol, liquefied petroleum gas.

The Polish Prime Minister Mateusz Morawiecki announced in early November that the anti-inflation shield would remain, although it would take a new form - due to the lack of consent from the European Commission. In early November, the European Commission informed that the current legal framework does not allow the application of a zero VAT rate on natural gas and fertilizers, while motor fuels cannot benefit from any reduced VAT rate, even temporarily. Polish authorities were also threat that the EC will impose fines if Poland does not withdraw from the current protective measures. That is why starting from January 2023, VAT reductions on fuel products will not be maintained. This will not apply to food products. The zero VAT rate will be maintained till June 30, 2023. On the other side, fuels and fertilizers will see their VAT rates higher as it does not comply with EU rules. Polish authorities

replaced zero VAT with another mechanism of defense against inflation. For instance, fuel tariffs for households were frozen until a yearly consumption of 2000 kWh in 2023. Price of fuels for SMEs, critical installations (hospitals, schools) were also negotiated with concerned parties. There are also some incentives to consume less utilities in Poland.

Regarding interest rates, as mentioned previously, the Monetary Policy Council raised the NBP reference rate to 6.75 percent for a year. from 0.1 percent during the pandemic (2020-2021) and 1.5 percent. before its outbreak (2015-2020). According to economists, this is not the end yet and hikes by a total of about 0.5 percentage point are still possible, although most of the members belonging Monetary Council of the National Bank of Poland declare that raising the cost of money may no longer be necessary.

### **Prospects for the inflation and the Gross Domestic Product in 2023**

Economists consider that the peak of the inflation would take place in March 2023 at around 19 -20 percent. All forecasts currently indicate that starting from the second quarter of 2023, the inflation rate in Poland will start to decline and will be below 10% at the end of 2023 with an average of 14.5% for this year (Jaka będzie średnioroczna inflacja w 2023 roku? Analitycy przedstawili prognozy: 2022). The inflation will also depend on the prices of raw materials (mainly oil, partly also coal), but also on the exchange rate of the zloty against major currencies or food prices. The strength of domestic demand will also be important, being reduced by rising interest rates and rising inflation (but fueled by numerous government support). It seems however that the average annual inflation next year shall be slightly lower than this year in comparison to 2022.

Prospects related to the growth of the Gross Domestic Product are still high for Poland in comparison to other countries of the European Union. This is among other due to a high willingness of the Polish population to consumer more and a low saving rate in comparison to other European countries. There is below a table which is summarizing the GDP growth rate expected in Europe by European institutions.

<b>Expected growth</b>			
	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>Belgium</b>	<b>6.2</b>	<b>2.0</b>	<b>1.8</b>
<b>Germany</b>	<b>2.9</b>	<b>1.6</b>	<b>2.4</b>
<b>Estonia</b>	<b>8.3</b>	<b>1.0</b>	<b>2.4</b>
<b>Ireland</b>	<b>13.5</b>	<b>5.4</b>	<b>4.4</b>
<b>Greece</b>	<b>8.3</b>	<b>3.5</b>	<b>3.1</b>
<b>Spain</b>	<b>5.1</b>	<b>4.0</b>	<b>3.4</b>
<b>France</b>	<b>7.0</b>	<b>3.1</b>	<b>1.8</b>
<b>Italy</b>	<b>6.6</b>	<b>2.4</b>	<b>1.9</b>

<b>Cyprus</b>	<b>5.5</b>	<b>2.3</b>	<b>3.5</b>
<b>Latvia</b>	<b>4.5</b>	<b>2.0</b>	<b>2.9</b>
<b>Lithuania</b>	<b>5.0</b>	<b>1.7</b>	<b>2.6</b>
<b>Luxembourg</b>	<b>6.9</b>	<b>2.2</b>	<b>2.7</b>
<b>Malta</b>	<b>9.4</b>	<b>4.2</b>	<b>4.0</b>
<b>Netherlands</b>	<b>5.0</b>	<b>3.3</b>	<b>1.6</b>
<b>Austria</b>	<b>4.5</b>	<b>3.9</b>	<b>1.9</b>
<b>Portugal</b>	<b>4.9</b>	<b>5.8</b>	<b>2.7</b>
<b>Slovenia</b>	<b>8.1</b>	<b>3.7</b>	<b>3.1</b>
<b>Slovakia</b>	<b>3.0</b>	<b>2.3</b>	<b>3.6</b>
<b>Finland</b>	<b>3.5</b>	<b>1.6</b>	<b>1.7</b>
<b>EURO AREA</b>	<b>5.4</b>	<b>2.7</b>	<b>2.3</b>
<b>Bulgaria</b>	<b>4.2</b>	<b>2.1</b>	<b>3.1</b>
<b>Czechia</b>	<b>3.3</b>	<b>1.9</b>	<b>2.7</b>
<b>Denmark</b>	<b>4.7</b>	<b>2.6</b>	<b>1.8</b>
<b>Croatia</b>	<b>10.2</b>	<b>3.4</b>	<b>3.0</b>
<b>Hungary</b>	<b>7.1</b>	<b>3.6</b>	<b>2.6</b>
<b>Poland</b>	<b>5.9</b>	<b>3.7</b>	<b>3.0</b>
<b>Romania</b>	<b>5.9</b>	<b>2.6</b>	<b>3.6</b>
<b>Sweden</b>	<b>4.8</b>	<b>2.3</b>	<b>1.4</b>
<b>EU</b>	<b>5.4</b>	<b>2.7</b>	<b>2.3</b>

*Source: European Economic Forecast, Spring 2022: 1.*

## Findings

The peak of inflation is moving higher, and the high growth rate of inflation will stay with Poland longer than the representatives of the Polish central bank thought. This means challenges for consumers and businesses established in Poland. In the public sector, there may be difficulties in awarding tenders. In private companies of entities, the problem will be the management of rising labor and energies costs. An under-estimated driver of the inflation is the Ukrainian War. An end to this conflict may change any kind of forecasts related to the economy of Poland but also of major economies of the world.

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