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# Economic Comment

## Anti-inflation shield to lower prices temporarily

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The government has presented its so-called anti-inflation shield, which is aimed at limiting impact of rising prices on households' incomes. The package assumes a cut in some taxes on fuels and energy plus payment of extra benefits for low-income households. According to government estimates, the total cost of proposed measures is equal to PLN10bn. According to our estimates, the package will deduct about 0.9-1.4pp from CPI in 1Q22.

Let us stress, however, that the impact of these actions will be temporary and this additional fiscal stimulus, which is what the package actually is, will fuel higher inflation further on, due to supporting the domestic demand. Thus, we lower our estimates of inflation in 1Q22 – now it seems unlikely that CPI will exceed 8% y/y – but we raise our forecasts for the following quarters.

It seems that “flattening” of CPI path in the first months of 2022 could serve as an argument for the MPC to make a pause in the hiking cycle after increasing rates in December (we are expecting 75 bp) in order to observe the situation until new NBP staff forecasts are published (March). Still, further hikes will probably prove necessary so we still expect the NBP reference rate to reach 3.0% in 1H22.

Below we present detailed proposals put forward in the anti-inflation shield.

### Fuels

Between 20 December 2021 and 20 May 2022:

- excise duties (calculated together with fuel surcharge) will be lowered to the minimum level allowed by the EU law (€359 per 1000 litres of gasoline, €330 per 1000 litres of diesel, €125 per 1000 litres of LPG, current rates are: PLN1679.14 per 1000 litres of gasoline, PLN1483.53 per 1000 litres of diesel, PLN842.25 per 1000 litres of LPG),

- exemption of fuel from retail sales tax,

- cancellation of emission surcharge (currently PLN80 per 1000 litres of fuel).

According to our estimates these measures will deduct 3% from gasoline price, 1.5% from diesel prices and 10% from LPG price. On average, fuel prices will go down by 3%.

### Electricity and heating gas

Between 1 January 2022 and 31 March 2022:

- VAT on electricity will go down to 5% from 23%, excise duty will be cancelled (currently PLN5.0 / MWh). We do not know if lower VAT will be applied to the whole electricity bill (together with distribution costs, for example) or just to commodity price. In the former case total bills will go down by about 15%, in the latter by about 7.5%.

- VAT on heating gas will go down to 8% from 23%. Also in this case we do not know whether it is about whole gas bills. If yes, then households will pay 12% less, if it is applied only to commodity, then about 9%.

### Lump-sum benefit

The government will pay a benefit of PLN400 per annum for 1-person households earning up to PLN2100 per month, PLN600 for 2-3 person households (earnings below PLN1500 per capita for this and further groups), PLN850 for 4-5 person households and PLN1150 for bigger households. About 5.2mn households are eligible, the benefit is to be paid into two instalments. We estimate total sum at PN3.5bn.

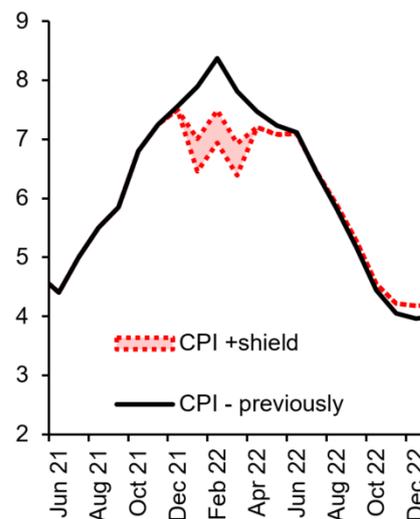
### Changes in CO2 permits

The government wants to discuss changes in EU CO2 permit trade in order to eliminate “speculation”.

### Savings in public administration

The government has also declared savings in public administration, to bring PLN3-5bn less expenditure. This is aiming at offsetting the burden of other measures on the budget (estimated at PLN10bn).

CPI: our forecast before and after taking into account the government's anti-inflation shield (the range shows possible influence depending on assumptions)



Source: GUS, Santander

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