

## Poland: High core inflation rate is a warning

The acceleration in the November core inflation rate is due to higher price growth in services. This is due to higher regulated prices, increased prices of services requiring close contact, such as medical and dental, and still strong demand



# 3.0%

## YoY Headline CPI in November

In line with flash estimate

As expected

The Central Statistical Office (CSO) in its final reading confirmed the preliminary estimate of CPI inflation for November at 3.0% year-on-year vs. 3.1% YoY in October. Food and energy prices acted as drags on the annual CPI rate while fuel prices did not change in relation to October. The main inflationary part of the CPI basket in November was the core rate, which grew to 4.3% YoY (ING estimate) vs. 4.2% YoY in October.

Persistently high core inflation is primarily driven by rising prices of services, where the November inflation rate accelerated to 7.8% YoY from 7.3% in October. In annual terms, the CSO reported higher fees for waste collection and prices of telecommunications services. Prices of services requiring close contact (medical, dental, hairdressing or cosmetic) also remained high due to strong demand and the need to compensate for the costs of increased sanitary requirements.

In 1Q21, the base effects for fuel and food should temporarily reduce headline CPI to 2.5% YoY. However, in the whole 2021, due to increases in administered prices, inflation should reach 2.8% YoY on average. We estimate that the capacity fee, Renewable Energy Sources fee and already announced increase in prices for generated energy will increase energy costs for households by about 10% next year. This will add at least 0.4ppt to the CPI. In addition, we have the sugar tax, an increase in fees for waste collection, which could reach an average of 40%, and the retail tax. Together, these could add another 0.6ppt next year.

Our CPI forecast for 2021 is higher than the National Bank of Poland's expectations (2.6% YoY average) and the consensus (2.2% YoY), but we see upside risk. Generous fiscal programmes and a relatively strong labour market should result in a consumption boom when the pandemic is contained. The share of private investment in GDP is currently the lowest in history, which constrains productivity growth and this is unable to offset the inflationary effects of demand pressure. This, combined with a strong increase in money supply, should put pressure on prices next year. The MPC should tolerate that and follow the European Central Bank rather than other central banks in the region which are much more hawkish than the NBP. The NBP should also continue its asset purchase programme (additional ca. 2% of GDP could be bought) but the main rate should remain unchanged at least until mid-2022.

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