

## Polish core inflation surges higher

The strong rise of Polish core inflation in September reflects some regulated price effects but also the impact of strong fiscal stimulus on consumption



Source: Shutterstock

The Polish central statistical office confirmed its preliminary inflation estimate for September at 3.2% year-on-year vs. 2.9% YoY in August.

The higher prices are mainly due to acceleration in the core component. We estimate core inflation in September increased to 4.3% YoY vs. 4.0% YoY in August. The annual growth rates of food prices were lower, fuel prices were similar, while energy prices were higher than in August.

The details show that the strong increase in September core inflation was caused by services with the acceleration of the annual price by 0.6p.p., from 6.6% in August to 7.2% now. This reflects regulated price pressure but also the impact of strong fiscal stimulus, which boosted consumption from 10.9% YoY in 2Q20 to 0/+1% increase YoY in 3Q20.

The yearly inflation in the “communication” category increased by 2.1 p.p., from 3.4% YoY in August to 5.5% YoY in September, due to the higher telecommunications services prices. The prices

in the "culture and recreation" category accelerated by 1.4p.p. compared to August (from 2.2% YoY to 3,6% YoY) due to a huge increase in the radio and TV subscription fees. The costs of furnishing apartments, including furniture and household appliances, are also rising. Similarly, we see an increase in transportation prices, which is a result of higher fuel prices, but also a huge increase in the prices of transport services, by as much as five percentage points. This is probably due to the rebound of air ticket prices – in the previous month.

The structure of the growth in core inflation indicates that it should subside, but may remain at an elevated level also in the coming months.

The second wave of the pandemic calls for GDP to slow down in 4Q20, but if the statistical office switches to price imputation again because pollsters are unable to collect prices, such an operation should prolong the current price trends. Without an epidemiological element, our models showed a decrease in core inflation to the central bank target (2.5% YoY) in 2H21.

We expect CPI prices to rise by 3.0% YoY on average in 4Q20. In 1Q21, due to the base effect on fuels and food, price growth is likely to slow down to 2.5% YoY, but overall in 2021, prices will increase by 2.8% YoY on average. The fall in inflation caused by Covid-19 will be smaller than previously expected.

The average inflation in 2021 will be much higher than the central bank's exceptionally low forecasts for 2021 (1.5% YoY), but this does not change the fact that the MPC will be ready for more monetary easing, mainly through the purchase of assets.

## Author

### Rafal Benecki

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the

Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.