

Core CPI and food drive Poland's inflation rate lower

Polish CPI in August slowed to 2.9% from 3.0% YoY the previous month. This reflects lower annual inflation in food and core CPI following the waning inflationary effects of Covid-19



Poland's annual CPI inflation rate fell in August to 2.9% YoY compared to 3.0% YoY in July, according to the final readings. The numbers were in line with the preliminary GUS data. The lower annual CPI growth is mainly the result of lower food prices, while annual energy and fuel price inflation remained unchanged in August compared to July this year.

An important factor behind the decline in the annual CPI is core inflation, which according to our estimates fell to 4.1% YoY against 4.3% YoY in July.

Detailed data shows that inflation in some services began to decline, including in the following categories: restaurants and hotels, recreation and culture (decrease in annual inflation in domestic and foreign tourism) as well as communication (decrease in annual inflation in equipment and services). These details show that the inflationary impact of Covid-19 is waning. There is much higher domestic tourism demand; new restaurant and hotel costs combined with deferred demand prevented the earlier price decline in this category despite the recession.

Core inflation is still boosted by rising inflation in other categories, including financial services' prices. This is a side effect of cutting interest rates to close to zero, a phenomenon also observed in other countries that previously experienced similarly low rates (as the rates drop to such low levels, the profitability of the banking sector significantly deteriorates, which causes an increase in fees and commissions, so effectively the monetary policy is not loosening as the rate cut would suggest).

We expect that on average in Q3 the prices of consumer goods and services will rise by 2.9% and in the following quarters the price increase will amount to 2.3% and 1.4%. We estimate that in 2020, CPI will increase by an average of 3.3%, and in 2021 it will increase to about 2%. Lower annual inflation in the subsequent periods will be supported by base effects and the expected gradual decline in core inflation. Inflationary pressure will be limited by the lagged effects of the recession caused by Covid-19 as well as the still possible spike in unemployment and lower wage growth. On the other hand, in the first quarter of 2021 some regulated prices should rise and another countercyclical increase in the minimum wage should lessen disinflationary pressure.

Author

Rafal Benecki

Chief Economist, Poland

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>.