

## Poland: January jump supports our 2021 CPI call

Inflation in Poland accelerated in January to 2.7% year-on-year. Our forecast for higher-than-consensus inflation in 2021 (average 3.1% YoY) has already come to fruition at the beginning of the year



# 2.7%

CPI in January (YoY)

market consensus at 2.4% YoY

Higher than expected

The Central Statistical Office reported a strong increase in inflation in January, to 2.7% YoY compared to 2.4% in December and the consensus estimate at +2.4%. The inflation surge in January was the result of a strong increase in food prices, despite a high base, by 1.3% YoY vs. 0.8% YoY in December. This is due to a colder winter in Poland and Europe than a year ago, which pushed up fruit and vegetable prices. In addition, in Poland, this was compounded by higher sugar and trade taxes.

We estimate that core inflation also accelerated, to around 4% YoY vs 3.7% YoY in December. This is a result of, among other things, an increase in TV subscription fees, limited seasonal sales in January (malls were closed until the end of the month), and rising costs of companies, which have been passed on to consumers.

The higher inflation in January confirms our scenario of above consensus price growth in 2021. We have been communicating for some time that prices should remain elevated this year. So far, we have forecast average CPI in 2021 at 3.1% YoY vs. 3.4% in 2020. Following the January reading, our model points to an average CPI in 2021 of 3.34% YoY. However, downward revisions are possible along with changes to the weightings in the CPI basket (the share of services in the CPI basket, which are heavily inflationary, should fall).

The most important pro-inflationary factors this year are administrative decisions and regulated prices (power and renewable energy fees, sugar tax, trade tax, increase in garbage collection payments).

Equally important are inflationary forces stemming from consumption. Low unemployment, generous fiscal programmes boosting household disposable income, coupled with double-digit growth in money supply should all spur inflation. The record low share of private investment in GDP is not conducive to easing inflationary pressures. With such a GDP structure, the economy is unable to build competitive advantages, which, through increased productivity, would also alleviate inflationary pressures from higher consumption.

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