

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.

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>.