

## Poland: Strong increase in service prices

There were no major surprises in November CPI dynamics. Core inflation is still on an upward trajectory



Source: Shutterstock

The final CPI reading confirmed an increase in November, from 2.5% to 2.6% YoY. The higher reading was caused mainly by food prices and core inflation. Based on available data we estimate an uptick from 2.45% to a value between 2.5% and 2.6% YoY.

The increase in core inflation was related to prices of services. Dynamics in this category accelerated from 4.8% to 5.3% YoY. The higher reading reflects increases in prices in two components: communication and recreation & culture. Last year both categories recorded strong drops, while current dynamics are at or above seasonal patterns (such as in the case of tourism). We attribute these changes to demand pressures and to rising labour costs.

We expect CPI to slightly exceed the upper bound of the NBP target (3.5% YoY) in the 1Q20. This overshooting is related to the high dynamics for core inflation and food prices. Secondly, the increase in excise tax on alcohol and tobacco should add 0.3ppt to CPI. Finally, despite previous comments, the government is unlikely to freeze electricity prices next year – according to local daily Rzeczpospolita, a final decision on tariff hikes is expected from the energy regulator next week.

Inflation should return to within NBP target boundaries from 2Q onwards. We believe that CPI is likely to permanently exceed 2.5% YoY. Simultaneously, we forecast further gradual increases in core inflation, to even above 3%YoY. Therefore the risk of overshooting NBP target boundaries in case of any supply-driven shocks (including drought, oil market disruptions) is elevated.

Despite higher CPI dynamics, we expect no reaction from the Monetary Policy Council. A stable rates policy is widely expected next year, even with inflation exceeding the central bank's target of 2.5%YoY.

## 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>.