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# Economic Comment

## CPI's sub-target finish of 2020

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Final December CPI was released at 2.4% y/y (down from 3.0% in November and vs 2.3% in flash reading). Core inflation ex food and energy prices went down to 3.7-3.8% from 4.3% in November. We are expecting 2021 CPI inflation to average slightly below the NBP target at 2.5%, with core inflation going further down. This will be supportive for keeping interest rates unchanged. Recent spikes in FAO food price index pose some upward risk for our forecasts of food prices.

GUS preliminary data on November foreign trade in goods showed that exports rose by 9.8% y/y thanks to much stronger demand from the euro zone, while the surprisingly strong imports growth at 4.1% y/y was caused by a rise of deliveries from the EU.

### Food and selected services drove CPI down in December

Inflation went down in November mostly due to lower core components, transport and insurance services in particular, as well as slower growth of food prices (dragged lower by meat and vegetables).

Food prices were by 0.8% higher in annual terms vs. peak at 8.0% y/y from March. Meat prices fell by 2.3% y/y versus +15.3% y/y in March. This was mostly an effect of falling demand connected to closure of hotels and restaurants and of oversupply amplified by presence of swine flu in Germany. We are expecting food prices to rebound in 2021 amid improving economic activity and reduced oversupply, but to rise on average lower than in 2020. However, recent spikes in FAO price index pose some upward risk for our forecast.

Transport prices fell by 14.9% y/y in annual terms vs +2.0% y/y in November. This major change stems from two factors: high base effect from December 2019 (spike in air transport prices) and weak price tendencies in 2020 due to the epidemic. We are expecting air transport prices to remain under pressure as long as coronavirus risks are high.

Insurance prices fell by 8% y/y from +2.7% y/y in November. Epidemic's impact on insurance prices is not obvious – on one hand, lower traffic could decrease premiums on transport, but on the other increased mortality could increase premiums for health and life insurances.

In general prices of services eased to 6.4% y/y from 7.8% y/y in November, and this was a major change from this year's peak to pre-epidemic levels. Goods prices advanced by 0.9% y/y (1.3% y/y in November).

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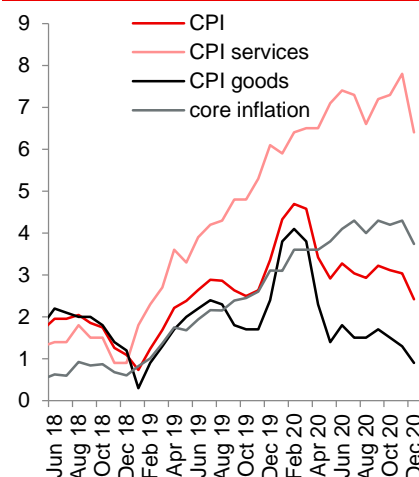
### More details on strong November foreign trade

According to GUS preliminary data on November foreign trade in goods, exports rose by 9.8% y/y vs 4.3% previously thanks to much stronger exports to the euro zone (13.8% y/y vs 7.3% previously).

Germany, receiving 28.8% of Polish exports in Jan-Nov'20 (compared to 27.7% in the same period of 2019) remained the driver of exports growth (+16% y/y). There is also evidence of precautionary restocking of the UK ahead of the end of the Brexit transition period, with Polish exports up 11.5% y/y in November vs -6.8% in October and -5.9% in Jan-Nov.

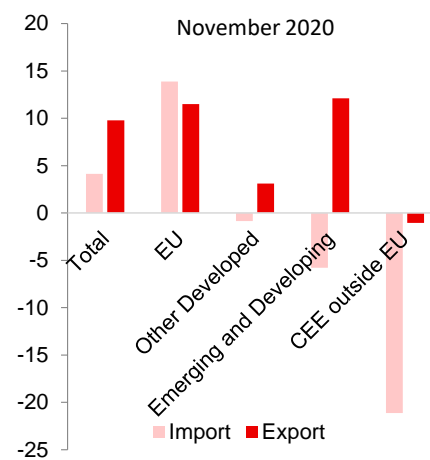
Imports rose by 4.1% y/y, up from -3% with continued high rise of deliveries from China (+24% y/y) and decline of trade with Russia (-28.6% y/y). The data also suggest the first significant rise since the start of the pandemic of imports from the EU as a whole, which could be the reason why imports were surprisingly strong (the NBP C/A data indicated earlier that imports beat market expectations, growing 5.3% y/y vs 0.8% expectations).

### CPI - main categories



Source: GUS, Santander

### Goods trade by country groups, %/y



Source: GUS, Santander

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