

Poland: CPI exceeds central bank target on higher services prices

We expect a moderate CPI slowdown in the second half of the year. However, we see a strong case for much higher readings in 2020 and as such, the central bank is unlikely to lower rates despite looming ECB easing



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The consumer price index increased from 2.4% to 2.6% year-on-year in June, in line with the flash estimate. Data confirmed another increase in core inflation from 1.7% to 1.9% YoY. This was mainly due to services prices, which accelerated from 3.3% to 3.9% YoY.

Social transfers boost CPI

In our opinion, the strong rise in services prices in June reflects the impact of social transfers. According to the official GUS comment, prices of package holidays added 0.09 percentage points to the headline. There were also increases in charges from telecommunication providers. The trend should continue in the autumn, as increases were announced by TV operators as well.

Inflation to temporarily decelerate in autumn...

We expect CPI to temporarily fall to 2.1% in the autumn. The contribution from fuel prices is likely to decline following the direction of the global oil market and we also expect lower food prices, with the supply of vegetables likely normalising after the summer. Still, core inflation should keep rising towards 2.5% YoY at the end of 2019.

... but will jump above 3% YoY in early 2020

Another strong increase in CPI should occur in late 2019 and early 2020. We expect the index to increase to 2.7% YoY in December, peaking at 3.5% YoY in the first quarter of 2020 (average 3.3% YoY). There are several drivers behind this increase including the lagged effects of rising labour costs, the increase in electrical energy tariffs for households, the unfreezing of energy prices for enterprises as well as strong consumption spending. The new retail sales tax should also add up to 0.1 percentage point.

NBP to hold rates flat

Given the strong dynamics of inflation projected for 2020, we expect the Monetary Policy Council (MPC) to keep interest rates unchanged, despite the expected policy easing from major central banks (including US Federal Reserve and the ECB). The NBP's countercyclical stance versus the external environment should help the Polish zloty in relative terms vs central and eastern European currencies.

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