

Polish inflation returns to central bank's target in October

CPI temporarily returned to the central bank's inflation target in October. We expect a stronger increase in 1Q20, however, the probability of target overshooting has decreased in comparison to previous months



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According to the flash estimate, CPI decelerated slightly in October from 2.6% to 2.5% year-on-year on lower food and fuel prices. We estimate core inflation was stable at 2.4%YoY.

Inflation is likely to see a modest decrease in November due to another drop in fuel prices, however, core inflation should continue its upward trend and achieve or even slightly exceed 2.5%YoY both in November and December.

A stronger increase in CPI should occur in 1Q20 and we forecast something close to 3.5%YoY. Core inflation is likely to increase further as a response to higher labour and energy costs. Potential overshooting of the central bank's inflation target's upper band (3.5%YoY) will depend on volatile components i.e. food and energy prices, but also on the magnitude of price increases related to the minimum wage hike.

The central bank governor Adam Glapinski would like to see inflation remain within the target boundaries. This is possible given that food prices are decelerating earlier than we previously forecasted and the government is mulling freezing energy prices for households in 2020. Therefore the probability of stronger increases is lower compared to previous months.

The central bank is likely to forecast the return of inflation towards the inflation target in the second half of 2020. Even though such a forecast is still debatable and depends on core inflation next year.

Still, the Polish central bank projections and easing done by major central banks around the world should reaffirm the MPC to keep rates stable.