Poland: CPI confirmed at the central bank target

The final CPI reading confirmed a return to the central bank's inflation target. We still expect a temporary increase in the first quarter of 2020 towards its upper band of 3.5%

Shoppers at the Poznan City mall in Poland

The final CPI reading confirmed year-on-year growth of 2.5% in October, slightly below the September reading (2.6%). The growth structure suggests that core inflation stabilised at 2.4% YoY. Some increase in prices was still visible in the restaurant, education and telecommunications sector along with other services. But overall yearly inflation of services accelerated less than it did in September. Some categories i.e. recreation & culture stabilised after a strong rise of yearly inflation in previous months.

The official statistics agency, GUS, suggests a more significant drop in car prices, which has weighed on core inflation. This drop is likely related to the second-hand market, the more restrictive emission standards in Western economies, and bigger imports of used vehicles in Poland (which affects prices). This factor is likely to persist in the coming months and should outweigh the introduction of more restrictive standards for new car emissions introduced in Poland from next year.

Another temporary drop in CPI is likely in November due to lower growth in food & fuel prices. Still, core inflation should remain on an upward trend, reaching 2.5% YoY before the end of 2019. We forecast the overall CPI index to temporarily increase towards 3.5% YoY in the 1Q of 2020 due to strong contributions from core inflation and food prices.

Headline CPI should return to the National Bank of Poland's target again in the second half of 2020 due to lower growth in food prices and a freeze in electrical energy prices for households (this change is still dependent on the government's decision). At the same time, core inflation should increase towards 3% YoY. If this continues, and there is a supply shock (e.g. disruption in oil production or another year of drought and low crops), this could result in inflation overshooting the target. Still, even in these circumstances, the MPC is unlikely to react and should maintain its current level of interest rates, given recent policy easing in other major economies (e.g. US or eurozone).

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