Polish inflation falls on the back of electricity prices

Inflation in Poland slowed down further in January, but core inflation picked up strongly. Even with higher than expected core, we think the peak inflation in 2019 will remain below the central bank's target, which is why expect interest rates to remain flat

Wind power plant factory, Szczecin, Poland

Inflation in January slowed down from 1.1% to 0.9%YoY, below the market consensus of 1%. The statistical office presented only a few components, and the full structure will be presented next month alongside new weights of the consumer expenditure basket.

Electricity prices caused the lower CPI reading, and we think this component deducted about 0.2 percentage points from the headline number. The slide was an unexpected result of a new bill, which aimed to stabilise energy prices but in fact, the new regulation lowered electricity bills. The regulations lowered the so-called interim fee (related to investment in energy infrastructure) by 95% but unintendedly froze other components (costs of consumer energy) of the retail electricity tariff.

0.9

Core inflation (%YoY)

ING estimate

Higher than expected

According to our estimates, core inflation surprised on the upside. Based on three available indicators, we estimate an increase from 0.6% to 0.9%YoY. Data provided by the statistical agency doesn't allow to pinpoint reasons behind such a surprise. But we think transportation fees, motor vehicle and housing prices are most likely behind this core CPI shift. Given the scarcity of data, revisions are likely in the final reading later next month.

In February, we expect CPI to rebound to ca. 1.3 - 1.4% YoY. The increase should come from higher food (adding ca 0.3pp to CPI) and fuels prices (adding 0.1pp). The annual dynamics of electricity prices should remain at a negative level – we don't see any advance in legislative works aimed at correcting the regulations, which froze URE tariffs.

Core inflation should also slightly increase (by 0.1pp), mainly due to statistical effects - the effect of introducing free bank accounts, which lowered CPI for the greater part of 2018, will expire.

2.3%

Highest CPI reading in 2019

ING forecast (%YoY)

We expect core inflation to keep rising in the coming months. But even with its slightly higher reading in January, we believe headline CPI should peak at 2.3%YoY this year.

Today's data and estimates are based on an incomplete set of information, but still, the picture we have doesn't derail our view on flat central bank rates for many quarters. Core inflation is slightly higher than expected, but after many months of downside disappointments in the second half of 2018, the central bank's approach shouldn't change. Even after January surprise, CPI peak should be below the central bank's target at 2.5%YoY.

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