

Snap | 4 January 2019

POLAND

## Poland: CPI drops and core inflation is surprisingly weak

December CPI surprised as core inflation remains persistently low. The prospect of a stronger increase in 2019 is fading with government intervention on the energy market and weaker core inflation abroad



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According to a flash reading, CPI decelerated further in December from 1.3% to 1.1% year-on-year. The drop was mainly due to lower fuel for private transportation (sliding from 10.6% to 7.7% YoY), which subtracted approximately 0.15 percentage points from the headline figure. Core inflation likely surprised negatively again, falling by another 0.1 percentage point (from 0.7% to 0.6% YoY).

# 0.6%

## Core inflation in December

ING estimate based on available GUS data

Lower than expected

The January reading is likely to hover around the current level (1-1.1% YoY). A drop below 1% YoY cannot be excluded given persistently low core inflation, however, we see limited scope for further deceleration.

We expect a recovery from February onwards and return to the NBP target boundaries (an increase to 1.5% YoY) at the end of 1Q. However, we see negative risks for the outlook in future quarters. Low core inflation in the eurozone, for example Germany, pose a risk of lower CPI in Poland, too. In addition, the government has introduced a bill preventing a sharp increase in energy prices both for households and enterprises. Therefore we see a significant risk that the cost-push of core inflation could be lower than we have estimated.

**2%** **CPI - 2019 ING forecast**

Annual average

Lower than expected

We forecast 2019 average CPI at 2% YoY, below the Bloomberg consensus (2.3% YoY). The risk of exceeding the inflation target (2.5% YoY) in the May-July window (which should present the highest readings this year) is falling in our opinion. We forecast CPI topping out at 2.3% YoY in 2019.

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