

Snap | 31 July 2019

RATES POLAND

## Polish CPI: Further rises in core and food prices

CPI in Poland rose to 2.9% YoY from 2.6%, according to flash estimates. Based on our calculations, core inflation has risen to 2.1% YoY, likely pushed up by service prices



### The reasons behind July's CPI increase

For the second time in a row, Poland's CPI reading came substantially above the consensus (2.6% YoY), chiefly reflecting food and core prices. Food prices accelerated from 5.7% to 6.8% YoY, despite strong base effects (there was a drought last year).

Our estimates (based on the statistical office's note) indicate that the core component jumped up again, reaching 2.1% YoY, up from 1.9% a month earlier. This probably reflects an increase in prices of services, which have already been rising for the past few months. Strong internal demand, buoyed by generous social benefits, and higher labour costs continue to push prices higher. In the past few months, that was particularly evident in leisure and hospitality. Prices of goods remain constrained though, limited by weak price pressure across Europe.

2.9%

## Polish CPI inflation

Flash estimate for July

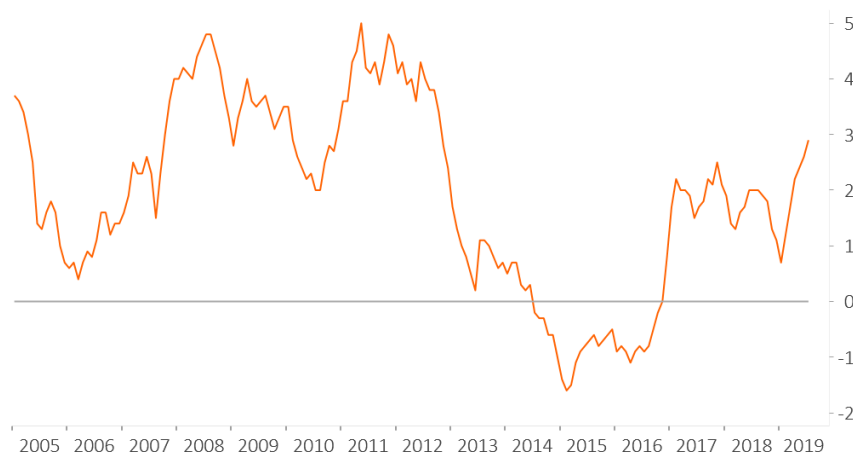
Higher than expected

### What to expect in the coming months?

We expect CPI to slow in the coming months, reflecting the base effects on food prices. Still, the core component is anticipated to rise, as new social benefits (mainly an extension of the so-called '500+' child benefits in 4Q) support consumption. As a result, CPI is expected temporarily to hit the upper band of the central bank (NBP) target of 3.5% YoY sometime in the first quarter of 2020.

Risks to our CPI path is skewed to the upside, given the strong rise of core inflation. However, this won't prompt the MPC to signal a tightening of monetary policy, as it is determined to keep the rates unchanged. Moreover, other central banks are in the easing mode, and Polish rate-setters won't be willing to go in the opposite direction.

### CPI inflation in Poland, %YoY



Source: Central Statistical Office

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