

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

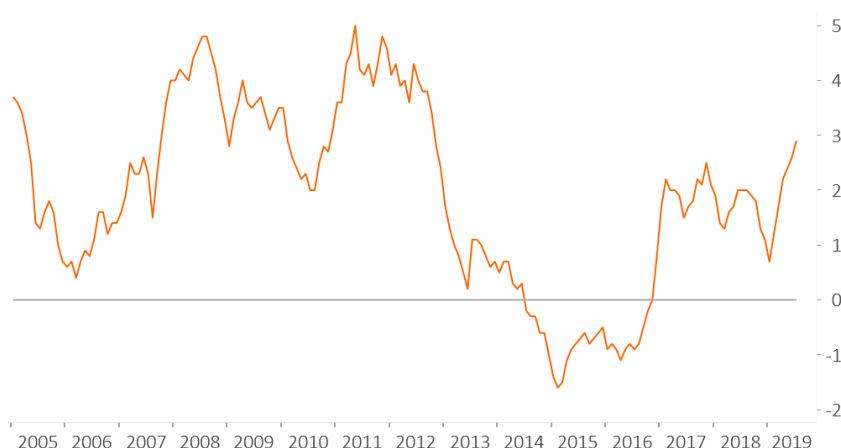
Higher than expected

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

Author

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial

instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.