

## Polish inflation returns to central bank target boundaries

CPI outperformed expectations in March due to stronger core inflation, but any import of low inflation from the eurozone remains a major risk in the months ahead. For now, we expect CPI to remain within the central bank's target of 2.5% in 2019



Source: Shutterstock

According to a flash estimate, inflation in Poland accelerated in March from 1.2% to 1.7% year on year, above market expectations and our forecasts of 1.6%.

The strong increase came on the back of higher food prices and surprisingly strong core inflation, which increased from 1% to 1.3%YoY, also above the market consensus of 1.2%YoY.

We think the surprise was related to telecom prices – this category has recorded consecutive growth for the last two months and could continue to grow after the slide in 2018. It is rather an unwinding of the promotions, which deducted from the core in 2018.

The energy regulator's decisions should determine next month's reading. So far the regulator decided to lower fees related to distribution without increasing prices related to the actual

electricity consumption. Current legal conditions suggest CPI should remain stable in April.

We expect CPI to stay within the central bank's target of 2.5%YoY in 2019 and forecast annual growth at 1.8%YoY. Core inflation accelerated rapidly at the beginning of the year, but we think its recovery should slow in the coming months due to low inflation in the eurozone.

The soft inflation in Germany suggests no rapid increase in industrial goods prices. One of the drivers of Polish core inflation are prices changes in the eurozone. Therefore, if soft inflation in the eurozone persists, that should contain core CPI acceleration in Poland as well.