

## Polish CPI recovers in February

Food and core inflation are behind the CPI rise in February. While we expect a further increase in March and stabilisation in the months ahead, CPI is unlikely to reach the central bank target of 2.5% in 2019



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Inflation in Poland increased in February from 0.7% to 1.2% year on year. The January reading was revised down by 0.2 percentage points on the back of changes in basket weights. The February monthly number (0.4%) exceeded market expectations due to both food prices, which increased from 0.8% to 2.1%YoY, adding 0.3ppt to the headline CPI, but also because of the strong rise in core inflation.

Based on available data, we estimate core inflation increased in February from 0.7% to 1%YoY. The strong increase at the beginning of the year was caused by increases in insurance prices, telecommunication fees (end of discount period) and locally set prices associated with house maintenance, such as waste management.

So far, the main drivers of core inflation in 1Q have been supply factors (end of promotions, regulated prices and things like side effects of higher wholesale electricity prices). However, we expect demand factors to increase core inflation in the coming months, eg, the lagged effect of labour costs/close output gap should appear.

On the other hand, imported inflation should constrain core CPI rise in Poland, ie, the ECB recently downgraded its core inflation forecasts for 2019-2021 by 0.2ppt. Slow growth in industrial goods prices in the eurozone typically spills over to Poland too.

The acceleration of core inflation at the beginning of 2019 reinforces our forecast for a further increase to around 2%YoY in 4Q19. That was at risk before, given major surprises in 2H18 on the downside.

But even with that, we remain confident that CPI won't reach the central bank's target of 2.5%YoY in 2019 – the average growth should stay close to 1.8%YoY. The recent reading poses no threat to the central bank's policy of rate stabilisation.

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