

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



Source: Shutterstock

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.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@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 www.ing.com.