

## Poland: Soft core inflation

The final November CPI reading confirmed a surprising drop in core inflation. The breakdown suggests weakening demand pressure



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According to the final reading, CPI decelerated in November from 1.8% to 1.3% year-on-year, slightly above the flash reading of 1.2%. We estimate core inflation at 0.7% YoY, which is 0.2 percentage points lower compared to October.

**0.7%** Core inflation in November  
ING estimate

There were two drivers of the surprising softness in core inflation. Comments from the statistical office (GUS) highlighted a strong drop in communication prices, from -3.6% to -5.9% YoY, which subtracted 0.12 percentage points from the CPI figure. However, in our opinion, weak recreation and culture prices (slide from 1.9% to 0.7%YoY) are more concerning, as the category is typically much more determined by demand factors. Stagnating wages, a deterioration of business sentiment and activity in European economies suggest weaker inflation pressure in the coming

months. Therefore low services prices (GUS reported a drop from 1.5% to 0.9% YoY in November) is likely to persist.

**1%** CPI in December  
ING forecast

We expect another CPI drop in December to c. 1% YoY due to lower prices of fuel for private transportation. There is still no clarification on electrical energy prices for next year. The government has announced actions preventing a cost increase for households, but as yet, we don't know anything about the energy regulator's decisions on tariffs or the government programme. Still, the introduction of a subsidy or a lower tax rate for electrical energy is, in our opinion, the most likely scenario. As a result, CPI is likely to increase moderately to approximately 2.0% YoY in 2019, reaching a peak of 2.3% YoY in May-July (below the central bank target). Our forecast is much lower compared to the November NBP projection (3.2% YoY), which assumes an outsized increase in tariffs and no action from the government to offset those burdens.

However, we still expect an increase in core inflation from 0.7% YoY presently to c. 2% YoY at the end of next year. The inflationary impulse is related to higher electrical energy costs for enterprises (a supply-side factor). We estimate an increase of 0.3-0.4 percentage points as the burden is transferred to the final consumer.

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