

Poland: Strong increase in service prices

There were no major surprises in November CPI dynamics. Core inflation is still on an upward trajectory



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The final CPI reading confirmed an increase in November, from 2.5% to 2.6% YoY. The higher reading was caused mainly by food prices and core inflation. Based on available data we estimate an uptick from 2.45% to a value between 2.5% and 2.6% YoY.

The increase in core inflation was related to prices of services. Dynamics in this category accelerated from 4.8% to 5.3% YoY. The higher reading reflects increases in prices in two components: communication and recreation & culture. Last year both categories recorded strong drops, while current dynamics are at or above seasonal patterns (such as in the case of tourism). We attribute these changes to demand pressures and rising labour costs.

We expect CPI to slightly exceed the upper bound of the NBP target (3.5% YoY) in the 1Q20. This overshooting is related to the high dynamics for core inflation and food prices. Secondly, the increase in excise tax on alcohol and tobacco should add 0.3ppt to CPI. Finally, despite previous comments, the government is unlikely to freeze electricity prices next year – according to local daily Rzeczpospolita, a final decision on tariff hikes is expected from the energy regulator next week.

Inflation should return to within NBP target boundaries from 2Q onwards. We believe that CPI is likely to permanently exceed 2.5% YoY. Simultaneously, we forecast further gradual increases in core inflation, to even above 3%YoY. Therefore the risk of overshooting NBP target boundaries in case of any supply-driven shocks (including drought, oil market disruptions) is elevated.

Despite higher CPI dynamics, we expect no reaction from the Monetary Policy Council. A stable rates policy is widely expected next year, even with inflation exceeding the central bank's target of 2.5%YoY.

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