

## Poland: Surprising CPI increase

CPI accelerated to 2.2%, well above market expectations. Reaching the National Bank of Poland's target in the coming months is very likely but we expect a deceleration in the second half of the year



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According to the initial estimate, CPI increased from 1.7% to 2.2% year-on-year, well above the market consensus (1.8%). The surprise is related to higher food prices and core inflation. Both factors are most likely supply driven.

Food prices increased from 2.6% to 3.3%, adding 0.2 percentage points to the headline figure. The inflationary surprise is probably related to vegetables and pork. The trend should continue in May – we expect another increase in food prices towards 4.5% YoY, related to the effects of last year's drought.

We estimate that core inflation increased in April from 1.4% to 1.7% YoY (vs our previous forecast of 1.4%), adding 0.24 percentage points to CPI. Similarly, as in March, the surprise is likely related to clothing prices. In previous years, this category recorded a decrease of approximately 6% YoY, which did not reflect economic reality (in the EU countries this category typically recorded a 1-2% increase). In March, the index reached -2.4% YoY and some surprises related to this issue are still

possible. Also, fees related to the legal changes in waste management may increase again in April – in previous months we saw increases related to activity of bigger municipal local governments, smaller entities may introduce legislation with a lag.

In the coming months, we expect CPI to top out around 2.5% YoY, driven by the acceleration in food prices and gradual core inflation increase. However in the second half of the year, CPI should decelerate due to a weaker contribution from food and energy prices – we expect October and November readings close to 2% YoY.

At the same time, we see a gradual increase in core inflation as the most likely scenario, reaching 2.5% YoY in 4Q19. Despite an inflationary surprise in April, we still expect no change in rates in the next two years and see rate cuts as the more likely scenario for 2021. Even the most hawkish MPC member K. Zubelewicz stated that the monetary transmission of a hike would be too late to stop an increase in inflation created by the fiscal impulse announced by the government, and may hamper the economy when the stimulus has been exhausted.