

Poland: Low CPI in December, headline might dip in January

CPI undershot the bottom of the range around the NBP target in December. We see high odds of a further CPI fall in January, an unintended consequence of the energy bill amendment. Inflation should remain below the central bank target in 2019.



Source: Shutterstock

Final December CPI was confirmed at 1.1% YoY, in line with the flash reading. Based on the available data we estimate that core inflation stood between 0.6% and 0.7% YoY, close to the November reading. In 4Q18 core CPI effectively stopped growing despite the positive output gap and lingering pressure of labour costs. The vast majority of core CPI categories came in in-line with seasonal patterns, without showing any upward trend. Some increase was reported in services prices such as recreation & culture (due to higher package holiday prices), but that was offset by other components.

While the slide in inflation might extend to January 2019, at the beginning of this year regulatory issues should play an important role. According to energy sector regulator URE, the government bill attempting to prevent retail electricity price rises (a pre-election measures passed in a hurry by

the ruling PiS) might even cause falls in electricity prices in January.

The retail electricity bill includes payment for actual consumption of energy and a few additional charges (including an interim fee for system development and for green energy). The government planned to offset any increase in consumed energy prices by lowering other charges (such as the interim fee, by 95%) as well as excise tax (paid by wholesale distributors). However according to the URE interpretation the government bill lowers the charges, but also does not allow for increased prices of consumed energy. Effectively all these changes should cause a fall in retail electricity costs in January. We estimate all of this should deduct 0.1-0.2ppt from CPI in January. Therefore the headline figure is likely to fall temporarily below 1% YoY.

We expect Parliament to amend the regulations at some point, so effectively CPI should rise again in coming months. Even in that case, headline inflation is unlikely to meet the NBP inflation target in the current year (2.5% YoY). We forecast annual average CPI slightly below 2% YoY, with a first peak between May and July (at 2.3% YoY), and a second in December (at a similar level, mainly due to a low base). A major downside risk to our forecast is related to slowdown in the Eurozone, which should also slow core inflation rises in Poland (due to the import of lower prices).

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.