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Economic Comment

Inflation back to the target

Piotr Bielski, +48 22 534 18 87, piotr.bielski@santander.pl

Grzegorz Ogonek, +48 22 534 19 23, grzegorz.ogonek@santander.pl

According to flash estimate, Polish CPI went down again in October, to 2.5% y/y from 2.6% in line with our forecast. For the second time in a row headline inflation decreased due to non-core elements. We estimate that core inflation stayed at 2.4% y/y and expect it to climb to c3% y/y at the turn of the year. Decision on electricity prices will most likely determine if CPI stays below 4% y/y early next year. The data do not change the monetary policy outlook: interest rates in Poland are likely to remain on hold for long.

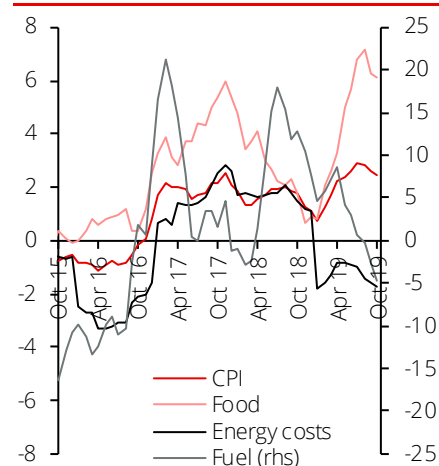
According to flash estimate, Polish CPI went down again in October, to 2.5% y/y from 2.6% in line with our forecast. For the second time in a row headline inflation decreased due to non-core elements. There was a further, fourth-in-a-row monthly drop of fuel prices, by 0.9% m/m, which took the y/y fuel price measure to -4.7%. While food prices rose 0,3% m/m - more than we expected, in y/y terms prices in the category slowed down from 6.3% y/y to 6.1%, leading to a lower contribution to headline inflation.

The partial information shown in the flash release suggests core inflation stayed at 2.4% y/y in October. However we expect core inflation to climb further to c3% at the turn of the year. Cost pressure remains high and may even rise next year on high minimum wage increase and introduction of employee capital plans.

Important issue for inflation in 2020 is the electricity price. The “unfreeze” of retail tariffs would add 0.5pp to CPI growth in January. But the government has not decided yet if it extends the freeze to 2020, . If it does, then CPI is unlikely to break 4% y/y. At the same time, decrease of inflation abroad, based on deteriorating global growth, suggests that also Polish inflation will be under some downside pressure later next year.

The data do not change the monetary policy outlook: interest rates in Poland are likely to remain on hold for long.

CPI and non-core components, %y/y



Source: GUS, Santander

CPI and core inflation, %y/y



Source: GUS, NBP, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa

email: ekonomia@santander.pl

website: santander.pl/en/economic-analysis

Piotr Bielski +48 22 534 18 87

Marcin Luzziński +48 22 534 18 85

Wojciech Mazurkiewicz +48 22 534 18 86

Grzegorz Ogonek +48 22 534 19 23

Marcin Sulewski, CFA +48 22 534 18 84

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department, al. Jana Pawła II 17. 00-854 Warsaw, Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. <http://www.santander.pl>.