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# Economic Comment

## Inflation outpaced GDP growth

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Inflation rate climbed to 4.4% in January, higher than we expected. The jump was partly explained by prices of food and energy, but not entirely, as according to our estimate core CPI ex food and fuel rose to 3.3-3.5% y/y. At the same time, flash GDP data confirmed that the economic growth slowed substantially to 3.1% y/y in 4Q19. We think that the data will not change substantially the Polish central bank's rhetoric – the MPC will keep arguing that the slowing economy makes the inflation's rise unlikely to be persistent.

### Inflation rose above expectations

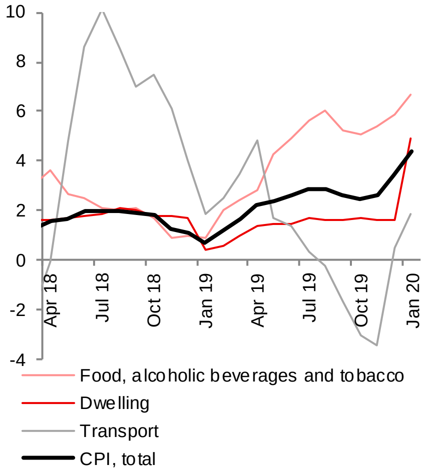
CPI inflation jumped to 4.4% y/y in January 2020 (market: 4.2%, our call: 4.1%), marking the highest reading since December 2011. As usually in January, the Statistics Office is publishing limited information, but so far it seems that the jump from 3.4% y/y in December was mostly due to higher food and electricity prices. "Food, alcohol, tobacco", rose from 5.9% y/y to 6.7%. While there was a hike of excise on alcohol and tobacco at the start of this year, the main CPI effect usually comes in February, so we attribute the increase in this category to food. Yet, core inflation excluding food and energy also probably went up to 3.3-3.5% y/y from 3.1% y/y in December, reaching the highest level since 2002. More details will be published with February CPI, when the Office will recalculate inflation using the new basket. In our view, the impact of changing the weights in the CPI basket on inflation rate should be minimal.

We expect CPI to remain above 4% throughout 1Q20 and then to decline gradually towards 3% at the year-end. The upward risks for this scenario stem from possible introduction of retail tax, potential second round of energy tariff hikes, and further disruptions in food supply.

### GDP growth slowed at the end of 2019

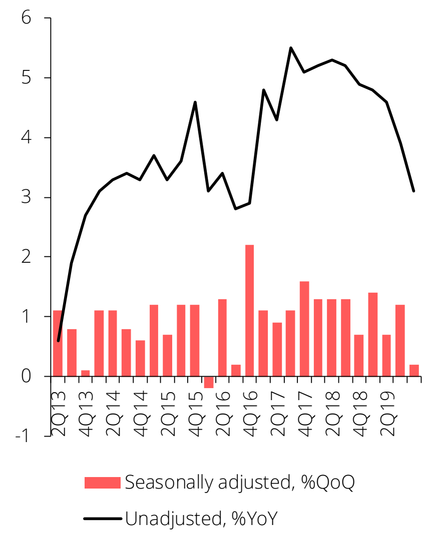
According to flash estimate, GDP growth slowed to 3.1% y/y in 4Q19, from 3.9% y/y in 3Q. The seasonally adjusted growth reached 0.2% q/q and 3.5% y/y. The data came in at the upper end of the range implied by the flash whole-year print (4.0%) released earlier. Today's publication does not reveal the growth breakdown but the annual data suggested that the final quarter saw a slowdown of private consumption, acceleration of fixed investments and slightly negative contribution of net exports. However, the surprisingly high surplus in foreign trade revealed by recent balance of payments data suggests, in our view, that the contribution of net exports was probably positive in 4Q, at the expense of some other component, possibly fixed investments. The full GDP data for 4Q19 will be released on February 28th. Overall, the data confirmed that a significant economic slowdown took place at the end of 2019, but on the other hand they did not add much more to what we had already knew.

**CPI inflation and selected components, %y/y**




Source: GUS, Santander

**GDP growth, % y/y**




Source: GUS, Santander

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