

## Poland: Activity still sound; inflation is a threat

Activity in 2Q remained solid, despite weak German performance. CPI reading confirmed price pressure is still strong, but growth of core inflation should be more benign in the second half of the year



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### GDP: Modest slowdown in 2Q, moderation in 3Q

According to the flash reading, GDP dynamics decelerated from 4.7% to 4.4% YoY, slightly below market expectations (4.5%). The underlying structure will be presented in the next two weeks and we expect a strong contribution from private consumption (at c.4.6% YoY). Investment growth should decelerate from 12.9% to approximately 8% YoY – the 1Q reading was supported by an exceptional contribution from the energy sector, which is unlikely to be repeated. Lastly, the export contribution should be much lower compared to the previous quarter.

We expect moderation in the current quarter – the 3Q reading is likely to maintain dynamics close to 4.3% YoY, despite the slowdown in Germany and the Eurozone as a whole and negative statistical effects. The expansion of child benefits should stimulate private consumption. On the other hand, investments are likely to decelerate further, again given stabilisation of public outlays and increasing global economic uncertainty.

## CPI: Core inflation growth likely to be more balanced in second half of 2019

Final CPI reading confirmed 2.9% YoY growth in July. Food prices accelerated from 5.7% to 6.8% YoY, adding 0.3ppt. Also, core inflation increased from 1.9% to 2.1% YoY.

The structure of core inflation does not suggest a rapid acceleration in the coming months. The biggest contribution came from package holidays – this factor should be exhausted after the summer months. A strong impact was also visible from garbage collection due to changes in regulation. Higher food prices affected restaurants, similarly a shortage of some medicine increased prices in the health category. However these shocks are supply side – changes in demand driven categories (eg, recreation and culture) do not deviate strongly from a typical seasonal pattern.

Therefore, we expect a stabilisation of core inflation close to the current level in 3Q and acceleration towards 2.5% YoY in 4Q. However, we forecast deceleration of the headline CPI index in the second half of 2019 towards the NBP target (2.5%) due to fuel and energy prices.

Given high core inflation and potential electrical energy price increases from the regulator, we expect CPI to increase abruptly in the first quarter of 2020, above the upper boundary of the NBP target (3.5%YoY). Any target overshoot should be temporary – the CPI is likely to return below upper bound in 2Q20.

Strong inflation growth is unlikely to alter the MPC's stable rates strategy, due to an easing of monetary policy by the major central banks (ECB, Fed). However, the inflationary pressure should calm easing expectations (market contracts are currently pricing a cut within two years).