

Poland: CPI stable, core inflation soft

CPI remained stable with core inflation still soft. The central bank doves are likely to become more vocal in the coming months, and we forecast flat rates until the end of 2020



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According to the flash reading, CPI inflation remained stable at 2% year on year in July. Fuel prices increased from 15.2% in June to 18.7%YoY adding 0.2pp to the headline figure. This move was offset by a moderate drop in food prices from 2.7% to 2.1%YoY. A benign slowdown in this category was a result of more expensive butter and eggs, most likely reflecting shortages of these products in Europe.

Based on the CPI structure we estimate core inflation to remain flat at around 0.6%YoY.

The CPI inflation should remain stable in August as well. The higher natural gas tariff will increase the energy prices. According to the energy regulator, consumer's will see an increase of 3.6%, adding approximately 0.1pp to the headline CPI reading.

Still, we expect slowdown after the summer and forecast CPI fluctuating between 1-1.5%YoY during the 4Q18 (below the lower boundary of the central bank's target. Such drop is related to the

negative statistical effects in case of food and fuel prices and low transmission of higher wages into prices of services.

Given the persistent core inflation softness, the monetary policy committee doves are likely to become more vocal in the coming months. We forecast flat rates till the end of 2020.