

Poland: Inflation to fall below central bank's target in 4Q

CPI remained stable at 2%YoY with higher core inflation. From September onwards, we expect CPI to decelerate and 4Q readings to fall below the lower boundary of the central bank's inflation target



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According to the flash reading, CPI remained stable in August at two percent year on year.

The drop in fuel prices from 18% to 15.3%YoY was offset by a regulatory increase of natural gas tariff, which increased CPI by 0.1pp. Based on the available data, we estimate core inflation to be somewhere between 0.7% and 0.8%YoY (vs 0.6%YoY in July). Still, core CPI increase is caused rather by statistical effects – we expect a limited rise in the next few months.

From September onwards, we expect inflation to slow down as food prices fall, reflecting the lower prices of agricultural products globally, e.g. measured by FAO indices. The high domestic harvests of fruits should also provide a negative drag. The GUS reported 50%YoY increase of apple and pear crops and 25%YoY of fruits from bushes. Statistical effects will also lower contribution of energy and food prices.

All in all, we expect CPI to undershoot the lower boundary of the central bank's target in 4Q18, with

a drop close to 1%YoY.

1.0

CPI (%YoY)

ING forecast for November

However, we think the CPI softness will be temporary as we expect the rise of regulated energy prices (following the recent increase of CO2 emission cost) and fuels (effects of new environmental fees) in 2019.

We also forecast increased prices of wheat products and meat as an aftermath of recent heatwaves in Europe. Thus CPI should increase above 2%YoY again in March 2019.