

## Poland: CPI to undershoot target in 4Q

CPI inflation again surprised on the downside in June. We expect it to undershoot the central bank's target in the fourth quarter



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According to a flash reading, CPI inflation accelerated modestly in June to 1.9% year on year from 1.7% YoY, below market consensus (2% YoY). The negative surprise likely came from core inflation.

Based on data on energy and fuel prices provided by the official statistics office, GUS, we estimate core inflation at 0.5% YoY, again below market expectations. A consensus provided by Polish newspaper Parkiet showed that a majority of forecasters expected an increase to 0.6%-0.7% YoY. This persistent low-inflation is due to a few reasons: 1) prices of services have been low so far despite strong wages (7% YoY), 2) core inflation is lowered by regulatory changes visible in the categories related to financial services (banks are now obliged to provide free bank accounts by the EU) and insurance.

Another source of surprise was related to falling food prices – which slipped to 2.7% year on year from 3% YoY in June, likely due to the lower costs of fruit and vegetables. Some analysts likely overestimated the short-term impact of a drought announced by governmental institute IUNG. We expect its impact to be felt in the autumn rather than today.

We expect inflation to decelerate in the coming months as base effects on food and fuel prices will provide a negative drag. We think the most likely scenario is for inflation to undershoot the National Bank of Poland inflation target (drop below 1.5% YoY) in the fourth quarter. The persistent weakness of core inflation should support flat rates in 2018 and 2019. So far, we do not see significant threats to forward guidance provided by NBP governor Adam Glapiński.