

## Poland: CPI slows but energy costs pose risk for 2019

CPI inflation decelerated slightly in September. Base effects should push it lower in the remainder of 2018, but rising energy costs for manufacturing enterprises is the major challenge for 2019



According to a final reading, inflation decelerated modestly last month from 2% to 1.9% year-on-year. The flash estimate indicated a deeper slowdown (1.8% YoY). Based on available data, we estimate core inflation hovering between 0.8%-0.9% YoY.

Inflation was strongly influenced by one-off changes in September. The headline index was lowered by telecommunication (-0.11 percentage points) and package holidays prices (-0.09pp). The negative impact was offset by an increase in clothing prices (+0,09pp) and to a lower extent education and miscellaneous goods (including insurance and financial services). Changes in other categories did not deviate strongly from a seasonal pattern. The overall dynamics of services prices still remained moderate (1.5% YoY).

The major challenge ahead is related to energy prices. A recent surge of EUA CO2 emission rights futures (from €8 to €20 per tonne) and an increase of coal prices (+23% YoY according to indices from the government agency of industrial development) will strongly affect manufacturing enterprises' costs in 2019. Some of these burdens will be transferred to the final consumer. Our

models indicate core inflation recasts with a two to three quarters lag – we expect CPI to increase to 3% YoY in June 2019.