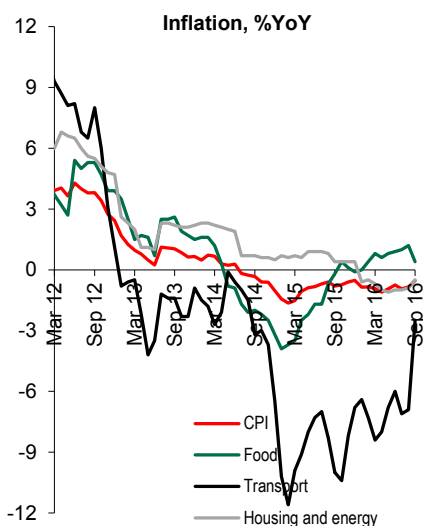


# INSTANT COMMENT

11 October 2016

## Highest CPI this year

Polish deflation narrowed in September to  $-0.5\%$  y/y, in line with flash estimate, and up from  $-0.8\%$  y/y in August. Food prices were the biggest surprise for us, as they fell  $-0.2\%$  m/m (against seasonal pattern, which suggested a moderate rise). According to our estimate, core inflation excluding food and energy price remained unchanged at  $-0.4\%$  y/y. We think that upward trend in CPI will be maintained, and it is possible that December may be the first month with inflation above zero after 29 months of deflation. In January CPI will be pushed up by very strong base effects in several categories and possible price hikes (water supply, electricity), so inflation rate may approach  $1\%$  y/y. In this environment, the MPC is not likely to start thinking about interest rate cuts, unless we see huge disappointment from economic growth in 3Q16.



CPI inflation rose to  $-0.5\%$  y/y in September, in line with the flash estimate and versus  $-0.8\%$  y/y in August, and was the highest this year. Rise in inflation was mainly due to changes in the transport prices, which saw a combination of two effects – low base from September 2015 and strong rise in fuel prices in September 2016. Transport added as much as 0.4 percentage points to CPI in September, i.e. was responsible for the whole rise in this measure. However, despite rise in annual CPI, there were some new factors limiting the total price growth: 1) introduction of free drugs for the elderly, which lowered prices of pharmaceutical products by  $1.7\%$  m/m (prices in health category declined by  $0.9\%$  m/m), 2) introduction of free schoolbooks for further classes of elementary schools, which lowered school books prices by  $15.7\%$  (prices in culture and recreation fell by  $1.4\%$  m/m), 3) decline of vegetable prices by  $2.1\%$  m/m, which dragged the whole food category down ( $-0.2\%$  m/m). Let us note that vegetable prices usually go up in September. Last time a comparable decline of prices in that category was recorded in 2012.

We estimate that in September core CPI after excluding food and energy prices remained unchanged at  $-0.4\%$  y/y.

In our view, headline CPI will be on the rise in the months to come. One cannot exclude, that deflation will end in December, but the new factors generating a downside pressure on inflation increase the risk that it will be delayed by one month. In January 2017, strong statistical effects and increases in some household maintenance items (water supply, electricity) will push CPI significantly up.

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