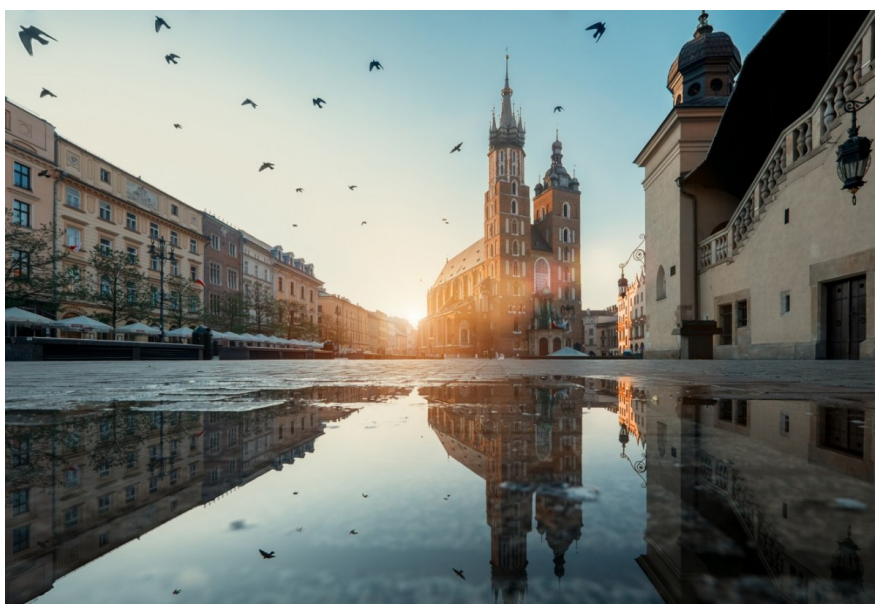


## Poland: Food and fuel prices drive CPI lower

Inflation slowed down but still remains within the central bank's target, making it more comfortable to reiterate its dovish rhetoric



Source: Shutterstock

**2.0** CPI (%YoY)  
Below market consensus  
Worse than expected

Flash CPI slowed down from 2.5% YoY to 2% YoY in December, which is slightly below the market consensus (2.1%YoY). The underlying structure will be published in the next two weeks, but we think the slowdown was mainly related to food and fuel prices. Core inflation is likely to remain at 0.9%YoY, and we expect more slowdown in 1Q18.

*We maintain our forecasts, assuming 25bp rate increase in 4Q18 and 50bp in 2019*

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There was no increase in regulated energy prices, i.e. electricity and gas. Secondly, food prices are likely to moderate as supply shock effects fade over time and the statistical base (mainly food and fuel) will work negatively.

On the other hand, administrative changes (i.e. reclassification of VAT rate from 8% to 23% on some products and environmental fees on plastic bags) are likely to increase core inflation slightly. Still, presently we see CPI close to 1.7%YoY in the coming months.

We think current inflation levels and the outlook for the month ahead should lower pressure on the MPC for tightening monetary policy.

We maintain our forecasts, assuming 25bp rate increase in 4Q18 and 50bp in 2019.

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