

Poland: Stable core inflation will not impact dovish MPC

The final CPI reading was above the flash release. Core inflation was likely stable and with limited inflationary pressures ahead, the MPC is safe to maintain a dovish bias



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Poland's final CPI reading for December decelerated from 2.5%YoY to 2.1%YoY (vs. flash at 2%YoY). Fuel prices turned negative, (from 4.7%YoY to -1.3%YoY) lowering the final reading by nearly 0.3ppt. Food prices also slowed from 6%YoY to 5.4%YoY, subtracting another 0.15ppt from the headline figure. Core inflation, which excludes food and energy, likely grew at a slower pace (0.9%YoY) supported by transportation and recreation & culture prices. So far there is limited evidence of increasing price pressures amongst other categories.

We expect a further deceleration in 1Q18. There was no increase in regulated energy prices (electricity and gas), and food prices are likely to moderate, due to the statistical base effect (largely on food and fuel) and as the effect of supply shocks fades over time. On the other hand, administrative changes (i.e. reclassification of VAT rate from 8% to 23% on some products, environmental fees on plastic bags) are likely to increase core inflation slightly. Still, we see CPI close to 1.8%YoY in January.

The current CPI outlook and dovish MPC rhetoric preclude the possibility of a rate hike in 2018. Rather, we see 2019 as the beginning of a tightening cycle. The National Bank of Poland may decide to tighten macroprudential policy rather than increase interest rates, if supervision is moved back to the bank.

0.9% Core inflation - ING estimate

Better than expected