Poland: Low CPI in December, headline might dip in January

CPI undershot the bottom of the range around the NBP target in December. We see high odds of a further CPI fall in January, an unintended consequence of the energy bill amendment. Inflation should remain below the central bank target in 2019.

Source: Shutterstock

Final December CPI was confirmed at 1.1% YoY, in line with the flash reading. Based on the available data we estimate that core inflation stood between 0.6% and 0.7% YoY, close to the November reading. In 4Q18 core CPI effectively stopped growing despite the positive output gap and lingering pressure of labour costs. The vast majority of core CPI categories came in in-line with seasonal patterns, without showing any upward trend. Some increase was reported in services prices such as recreation & culture (due to higher package holiday prices), but that was offset by other components.

While the slide in inflation might extend to January 2019, at the beginning of this year regulatory issues should play an important role. According to energy sector regulator URE, the government bill attempting to prevent retail electricity price rises (a pre-election measures passed in a hurry by the ruling PiS) might even cause falls in electricity prices in January.

The retail electricity bill includes payment for actual consumption of energy and a few additional charges (including an interim fee for system development and for green energy). The government planned to offset any increase in consumed energy prices by lowering other charges (such as the interim fee, by 95%) as well as excise tax (paid by wholesale distributors). However according to the URE interpretation the government bill lowers the charges, but also does not allow for increased prices of consumed energy. Effectively all these changes should cause a fall in retail electricity costs in January. We estimate all of this should deduct 0.1-0.2ppt from CPI in January. Therefore the headline figure is likely to fall temporarily below 1% YoY.

We expect Parliament to amend the regulations at some point, so effectively CPI should rise again in coming months. Even in that case, headline inflation is unlikely to meet the NBP inflation target in the current year (2.5% YoY). We forecast annual average CPI slightly below 2% YoY, with a first peak between May and July (at 2.3% YoY), and a second in December (at a similar level, mainly due to a low base). A major downside risk to our forecast is related to slowdown in the Eurozone, which should also slow core inflation rises in Poland (due to the import of lower prices).

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