

Polish inflation hits 2017 high in surprise jump

The 2.2% figure shouldn't worry the Polish Central Bank just yet



Source: shutterstock

2.2% Polish CPI inflation

Previously 1.8%

CPI inflation surprised with 0.4pp growth to 2.2% YoY vs 1.8% YoY a month ago. The jump is probably due to regulatory adjustments, not least in education, and food prices. Food prices maintained their high trajectory (we assumed 5%YoY, which was probably the case). September brought a sharp temperature drop which could well have caused fruit and vegetable prices to rise. Both factors should have limited impact on the Monetary Policy Committee's stance – a rise in tuition prices is related to regulatory changes, whereas food prices are driven by supply shocks.

We assume this is the last month we'll see the headline figure

increase.

From November, base effects will push fuel prices deeply into negative territory. Importantly, even assuming that most of the upside surprise in Sep-17 CPI came from core inflation, the core measure would only return to the NBP (central bank) path assumed in the July 2017 CPI projection. So from that perspective, the MPC should be comfortable with their dovish approach.

In the coming months, we expect a gradual core inflation recovery, yet its impact will not offset the base effects which are currently weighing on headline CPI. We expect CPI to drop close to the lower bands of the NBP target in December 2017. The MPC reaction on this surprise should be benign – we assume the NBP governor will stick to no rate changes in 2018. Still, the continuation of positive momentum in activity & wage dynamics is likely to put pressure on current forward guidance. We still expect a rate hike in the fourth quarter of next year.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

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