

30 October 2026 | 3 pages

Poland Economics Flash

Inflation undershoots forecasts, removes some pressure from the MPC

OUR TAKE

October flash CPI at 3.5% undershot our and consensus forecasts but the actual surprise came from the fact that core inflation most likely fell again. Although the print leaves many questions unanswered, for now its main consequence is that it may allow the MPC to keep rates on hold at the upcoming meeting on November 4th. However, it does not change the fact that real rates in Poland are low and the pressure on the MPC to hike will rise over time.

According to the flash estimate, headline CPI fell in October to 3.5% YoY from 4.1% in September. The print is noticeably lower than our and consensus estimates (respectively 3.8% and 3.7%), but the actual surprise comes from the structure of price increases. Both fuel and energy prices surprised to the upside vs. our assumptions, and the source of weak CPI was actually in core components. Based on available partial breakdown, we estimate the core inflation fell to 2.7-2.8% YoY from 3.1%. After adjusting for seasonal factors the core excluding food, fuels and energy was approximately flat in month on months terms and October was the second consecutive month with low core index.

Looking ahead, the October CPI release pushes our headline CPI path lower by approximately 0.3pp, but at the same time recent oil price developments made us revise the fuel trajectory higher. Inflation still remains elevated and well above comfortable levels, but its exact level will depend on government's decision regarding fuel tax cuts. VAT and excise on fuels were cut last month, but they are supposed to be reset to higher levels in January. We believe the government will try to extend measures beyond December, but given its high fiscal cost (annualized 0.4% of GDP) and the tight budget situation, the extension is likely to be only temporary.

The resetting of fuel taxes to original levels would add approximately 0.7 pp to the CPI path. Figure 1 shows two CPI paths - with fuel taxes staying unchanged and fuel taxes increasing in January 2027. Even in the former case the CPI path remains high, above the 2.5% target of the central bank.

Monetary policy implications - The immediate implication of the October CPI release is that it will make it easier for the MPC to keep rates on hold at the November 4th meeting. However, it does not change the fact that overall inflation trajectory is inconsistent with price stability, while real rates in Poland are not in restrictive territory. We expect to see 2-3 rate hikes from the NBP, the first one delivered in early 2027.

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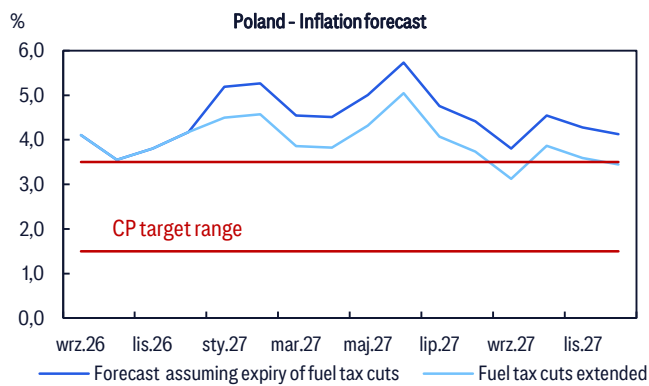
Figure 1. Poland - Inflation forecasts depending on fuel tax assumptions

	Sep-26	Oct-26	Nov-26	Dec-26	Jan-27	Feb-27	Mar-27	Apr-27	May-27	Jun-27	Jul-27	Aug-27	Sep-27	Oct-27	Nov-27	Dec-27
Forecast assuming expiry of fuel tax cuts	4.1	3.5	3.8	4.2	5.2	5.3	4.5	4.5	5.0	5.7	4.8	4.4	3.8	4.5	4.3	4.1
Fuel tax cuts extended indefinitely	4.1	3.5	3.8	4.2	4.5	4.6	3.9	3.8	4.3	5.0	4.1	3.7	3.1	3.9	3.6	3.4

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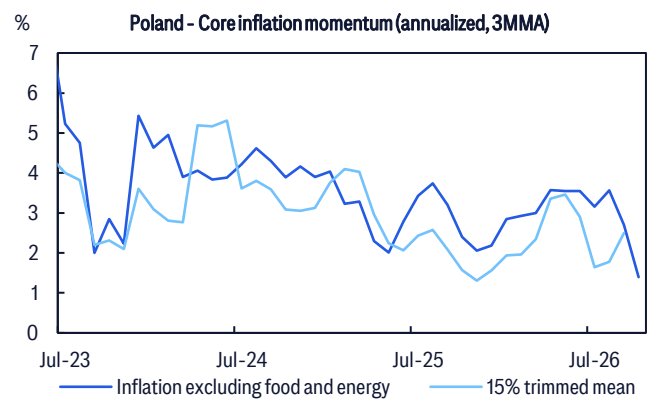
Source: Citi Handlowy Forecasts, Statistics Poland

Figure 2. Even if the fuel tax cut is extended indefinitely, the CPI path will likely remain high



Source: Citi Handlowy Estimates, Statistics Poland

Figure 3. It is unclear to what extent the large drop in core inflation momentum comes from one-off and to what extent from lasting factors



Source: Citi Handlowy

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