

Monitoring Poland: No respite from inflation; hikes set to continue

The National Bank of Poland holds its rate setting meeting on Wednesday. We expect at least two 25 basis point rate hikes in the fourth quarter of 2022



Rising inflation and currency weakness are concerns

Poland faces persistently rising inflation and zloty weakness. The NBP's forecast of CPI stabilising after the summer holidays failed to materialise. This puts Monetary Policy Council calls to end, or at least pause hiking into question. We expect at least two 25bp rate hikes in 4Q22. The cycle should conclude at 7.5% in 1Q23 and moderate cuts are likely in 2H23. But suspension of the government's anti-inflation measures should cause CPI to return above 10% YoY in 2024.

The economy is on track to expand by about 0.6% quarter-on-quarter seasonally adjusted in the third quarter of 2022, after a decline of 2.1% QoQ, avoiding a technical recession in mid-2022. Annual growth may slightly exceed 3% in the third quarter and 2022 full year GDP should reach c.4%, before slowing to 1.5% in 2023 amid the intensifying energy shock, deteriorating external conditions and elevated inflation. Elevated inflation is projected to cool down consumer demand, while high interest rates is likely to hamper investment activity.

In September CPI inflation rose to 17.2% year-on-year (a 25-year high) shattering hopes for stabilisation after the summer. Upward pressure from high energy prices is accompanied by

strong second-round effects as businesses pass higher costs onto their output prices. Core inflation resumed strong growth after summer stabilisation, and food price adjustment is continued. Proposed fiscal measures targeted at cushioning increases in electricity and gas prices for households should allow the NBP to ease in the second half of 2023. On the flip side these measures, when suspended, should cause elevated inflation to return in 2024.

FX and Money Markets

The zloty remains under pressure. The sentiment is unlikely to change given the unfavourable external environment (especially mounting tensions between Russia and the West) and the NBP signaling a prompt end to its tightening cycle. Still, positioning against PLN is already significant (as indicated by elevated costs of FX swaps) and should offer some scope for a recovery of the zloty if external factors improve. However, €/PLN is unlikely to move significantly below 4.8 in the fourth quarter of this year regardless.

Domestic Debt and Rates

Curve steepening is the most likely scenario for the fourth quarter. The NBP signaling a prompt end to its tightening cycle should help stabilise short-end paper, despite high CPI. Core markets developments should continue to affect the long end. Moreover, the market may be underestimating public sector borrowing needs in 2023, which in turn could translate into wider asset swaps on the long end. Given deposit outflow from local banks, foreign investors are likely to be the key local debt buyers next year.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.