

Persistent core inflation in Poland limits scope for 2025 rate cuts

September's final CPI reading confirmed that Polish headline inflation rose to 4.9% YoY and points to a sharp increase in core inflation, which made a return back above 4% YoY on soaring services prices. In our view, persistent core inflation means that the scope for NBP rate cuts in 2025 will be limited to 100bp in cautious 25bp moves



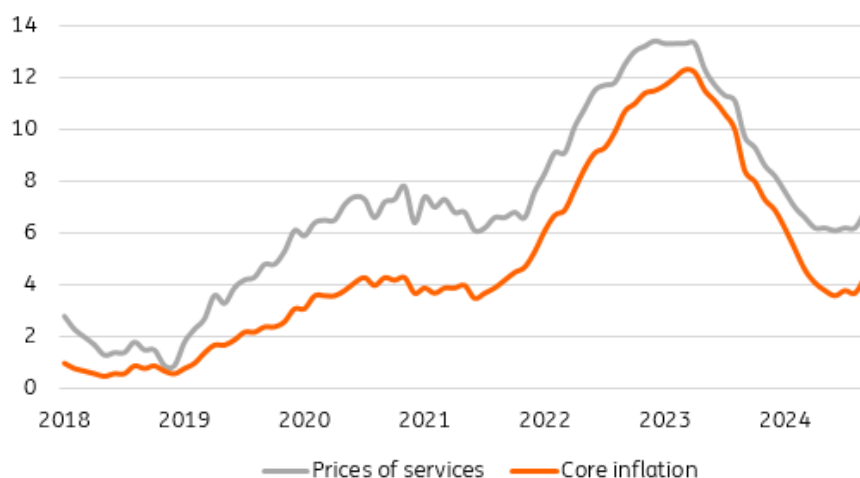
Elevated core inflation is lingering in Poland, and we think it'll be the key factor limiting the scope for rate cuts next year

The Polish StatOffice has confirmed its earlier estimate of September CPI inflation at 4.9% year-on-year. Prices of goods went up by 3.8% YoY and services prices soared 6.8% YoY vs 3.6% and 6.2% respectively in August. Compared to August, consumer prices increased by 0.1% month-on-month.

In September, annual inflation ticked up from August. The increase was driven by food prices, which contributed an additional 0.2 percentage points to the annual CPI. Energy prices added 0.1ppt and higher core inflation (primarily due to increased healthcare costs) contributed an additional 0.3ppt to the YoY CPI.

Core inflation back above 4% YoY amid soaring services prices

Price change, %YoY



Source: GUS, ING

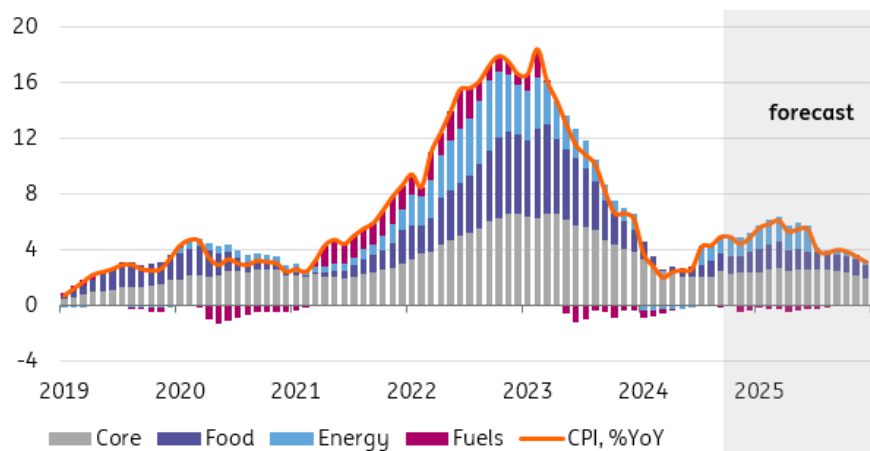
The increase in the annual core inflation rate was also associated with the low base effect, caused by 'unnatural' price declines in September 2023. A year ago, core inflation decreased by 0.1% MoM due to the introduction of a new list of reimbursed medicines which expanded the catalogue of free medicine for the elderly and children. The annual rate of price growth in the health category rose to 6.1% in September from 2.7% in August.

This year, we experienced a more typical September increase in core prices from the previous month (approximately 0.4% MoM). On a monthly basis, telecommunications services and services related to recreation and sports became significantly more expensive.

We expect that in the coming months, headline inflation should remain close to 5% YoY. At the beginning of 2025, we may witness a further increase. The issue of a potential extension of the maximum electricity price at PLN 500/MWh (net) remains unresolved. However, we know that the capacity fee will be reinstated, and excise duties on cigarettes will rise. According to our forecasts, inflation should peak at around 6% YoY between the first and second quarters of 2025.

CPI inflation to peak in early 2025

%YoY, prec. points.



Source: GUS, ING

The discussion within the central bank's MPC regarding the beginning of its monetary easing cycle is likely to start at the March meeting, following the members' review of the macroeconomic projections. We expect the first rate cut to take place in the second quarter of 2025, with the National Bank of Poland rates being reduced by a total of 100bp throughout 2025.

Persistently elevated core inflation – which should remain above 4% YoY in the coming months – is the factor narrowing the room for the scale of monetary easing in 2025. The NBP's projections point to higher core inflation paths than scenarios expected by the Czech and Hungarian central banks.

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