

## Poland: End of summer holidays did not halt inflation growth

CPI inflation rose to 17.2% year-on-year in September, reaching the highest level in a quarter century. The increase was driven by higher core inflation as well as a further rise in energy and food prices. Inflation is set to be persistent and gives the MPC no comfort when it comes to ending its tightening cycle. We expect another 25bp rate hike next week



Food and beverage prices rose 1.6% month-on-month vs. our estimate of 1%

### CPI inflation at 25-year high

Consumer inflation is still seeking its 2022 peak. In September, prices rose by 17.2% YoY (ING: 16.7%YoY; consensus: 16.5%). This was the highest annual increase this year and the highest level in a quarter century. There was also another wave of food price rises, which jumped by 1.7% MoM. Food and non-alcoholic beverages are now 19.3% more expensive than a year ago. Prices of energy carriers rose significantly for another month - by 3.7% MoM, most likely due to further increases in coal prices. The 2.1% MoM drop in gasoline prices was not enough to offset the increases in food and energy costs. Changes in food, fuel and energy prices were close to our expectations but we were surprised by the strong increase in core inflation. We estimate that core inflation, excluding food and energy prices, increased by around 1.4% MoM in September to some 10.6-10.7% YoY, from 9.9% YoY in July.

## Persistent inflation calls for further tightening

The optimistic scenarios of inflation peaking in the summer and falling later in the year, drawn by some observers and NBP officials, did not materialise. We were more cautious in this respect, warning that inflationary pressure could endure. In our view, inflation may continue trending upwards in the coming months given (1) the magnitude of the energy shock, (2) deeply negative real interest rates, (3) a tight labour market (wage pressures) and (4) expansionary fiscal policy. Inflation is expected to be persistent, with a sustained decline to single-digit levels not occurring until 2025. In light of such challenges, there is still room to tighten monetary policy and declarations of readiness to end the cycle have proven premature. We expect a 25bp rate hike next week and policymakers are likely to leave the door open for further hikes, contrary to earlier declarations of an imminent end to the cycle.

## Real interest rate fell deeper into negative territory

Real interest rate, %



Source: GUS, NBP, ING.

## Important test for CEE central banks

The coming months will show whether the end of the interest rate hike cycle, pursued by the Czech National Bank and Bank of Hungary, will stand the test of the challenging environment. It should be noted that while these central banks stopped at very different levels (7% and 13%, accordingly) they face similar challenges to the National Bank of Poland. Two main risks to the CEE central bank approach are now emerging. First, a further significant rise in inflation cannot be ruled out, which will force a readjustment of monetary parameters. Second, the major central banks (Federal Reserve, European Central Bank, Swiss National Bank) have entered a phase of decisive rate hikes, which, in the context of attempts by banks in the region to end the cycle, may generate pressure on CEE currencies. This may require higher interest rates in the region to stabilise financial markets.

## Author

### Rafal Benecki

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

### Adam Antoniak

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@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](http://www.ing.com).