# 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.

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