Polish CPI inflation up to 5.0%YoY in October

Poland's headline inflation increased to 5% year-on-year in October, driven by food and fuel prices. At the same time, core inflation most likely moderated slightly, but its momentum remains high. The Monetary Policy Council (MPC) will keep interest rates unchanged until the second quarter of 2025 as the inflation peak is still ahead

The increase in Poland's CPI inflation rate was mostly driven by a rise in food prices

Poland's CPI inflation rate rose to 5.0%YoY in October from 4.9%YoY in September, according to the StatOffice flash estimate. The increase was driven by a rise in food prices (4.9%YoY vs 4.7%YoY in September). Compared to September, vegetables, among other items, became significantly more expensive.

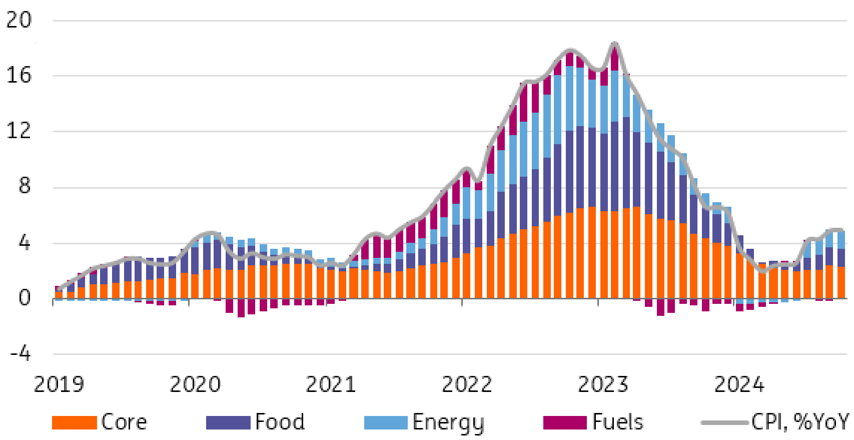
Annual inflation was also boosted by fuel prices due to the low base effect in October 2023, when there were price promotions at petrol stations. After two months of year-on-year declines, prices in October this year were at the same level as a year ago (0.0% YoY). The annual rate of energy price growth was similar to September (11.5%YoY vs 11.4%YoY). The latter remains elevated from the latest adjustment in regulated retail electricity and natural gas prices.

We estimate that core inflation, excluding food and energy prices, moderated to around

4.1-4.2%YoY from 4.3%YoY in September, mainly due to the high base effect from last year when core prices rose by 0.6% month-on-month. The momentum of core inflation remains high (around 0.4-0.5%MoM).

CPI inflation

%YoY, precentage point



Source: GUS, ING.

High inflation remains the decisive factor in the MPC's decision to delay the start of an interest rate cut cycle. Particularly as a further significant rise in inflation on the back of higher energy prices is expected at the beginning of 2025, with a peak of around 6%YoY.

The ongoing loose fiscal policy reflected in the latest amendment to the 2024 budget act is also an argument for maintaining a restrictive monetary policy. The central bank's rhetoric could be softened by disappointing retail sales data for September, but considering that the weak result may have been due to one-off factors (flooding), the National Bank of Poland (NBP) is unlikely to react nervously.

We expect the MPC to leave interest rates unchanged next week, and the November NBP staff projection is unlikely to significantly clarify the inflation outlook due to uncertainty regarding regulatory and administrative decisions. We anticipate that only the March projection will be viewed by Council members as a credible scenario for economic developments. Therefore, we expect the first interest rate cut of 25bp to occur in the second quarter of next year, with a total reduction of 100bp over the next year.

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