Further rate hikes expected by the National Bank of Poland

The Russian aggression will have a significant impact on the Polish economy, primarily via international trade, subtracting some 1.3ppt from 2022F GDP. This will not deter the NBP from hikes though, as the conflict increases the risk of persistent inflation, stemming from commodity prices, weak PLN and supply chain disruptions

National Bank of Poland preview

On net, the war in Ukraine should subtract from Poland's GDP. The negative impact is largely felt through the trade channel with Ukraine, Russia and Belarus, and lower confidence should affect the domestic investment environment. The lower propensity to spend on durable goods from Polish households is another drag on GDP, but it should be more than offset via private and public spending on refugees' reception. Overall, we see GDP lower by 1.3ppt in 2022 (versus 4.5% seen earlier).

The government should also extend its Anti-inflation shield until the end of 2022, offsetting the spike in oil prices and another 30% hike of regulated gas prices in 4Q22. The wild card is food prices. Corn and oilseed are less important for Poland, but the risk is contagion to other softs. Short-term weakness in the Polish Zloty, labour shortages (some Ukrainians workers have left

Poland to join the army) should also add to CPI upside risks. We see average CPI above 8% in 2022 with some upside risk.

The central bank should continue its tightening cycle on 8 March, likely by another 50bp. A weaker move would very likely affect the zloty, undermining NBP FX interventions. Given slightly weaker GDP, but persistently high CPI, the upside risk to our rate forecast (at 4.5%) disappears and reaching the terminal rate may take longer. Still, the National Bank of Poland (NBP) should maintain mildly hawkish language to support the FX interventions already taken.

FX and Money Markets

The zloty is likely to remain under pressure as the conflict continues. Should fighting in Ukraine start close to the Polish border, this can add to political / military risks. NBP FX interventions are expected to remain focused on limiting volatility, rather than defending any particular levels. Medium-term prospects somewhat improve though, as the Ministry of Finance wants to convert EU funds via the market, Recovery Fund may be unfrozen, and Poland may get extra funds for refugees from the US and the EU.

Domestic Debt and Rates

We continue to see the prospects for Polish government bonds as negative. The Russian aggression should result in a lasting rise in CPI, while the hit on growth is moderate. This should support market expectations for a stronger/longer rate hike cycle. Moreover, a likely fiscal push should increase debt issuance. At the same time geopolitical risks suggest wider asset swaps, at least for a few weeks.

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