

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.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@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.