Article | 9 February 2022

Hawkish rhetoric by Poland's central bank governor

After yesterday's decision by the Monetary Policy Council on the fifth interest rate hike since October, and the third 50 basis point hike in the last three consecutive months, National Bank of Poland Governor Adam Glapiński participated in a press conference and provided his guidance on continued monetary tightening

Bank of Poland governor, Adam Glapinski

Source: Narodowy Bank Polski

Key insights from the conference are the following:

Continued tightening cycle in the months ahead

The NBP Governor defended his earlier statements, that the MPC started to hike interest rates in 2021 at the right time. The five hikes so far are aimed at dampening the internal inflationary pressures, which were provoked by external supply shocks.

Governor Glapiński supports further hikes at the next MPC meeting, but steps at later meetings will depend on the economic situation. The hiking pace of 50bp is currently adequate, but in the future the MPC may consider smaller steps.

According to Glapiński, a key policy rate of 4% will not harm GDP growth and employment.

2 Assessment of main drivers of high inflation and future inflationary path

Governor Glapiński noted that high inflation is a global phenomenon. In particular, inflation in the eurozone accelerated to 5.1%, the highest level since the single currency introduction, and in the Baltic states it even approached 12%. High global inflation (transposed also to Poland) results from supply shocks: high prices of energy commodities, food, disruptions in global supply chains, high freight costs, and costs of EU's climate policies. The latter leads to higher electricity bills. The strength of the supply shocks turned out to be much higher than initially anticipated. In Poland, increases in food prices were surprisingly high.

Inflation reached elevated levels, but it is set to decline, although global energy prices remain stubbornly high, but xchallenges in international trade should ease. However, in our view, CPI in Poland will not decline to the NBP's target of 2.5% with +1/-1 percentage point tolerance band through end-2023.

According to the NBP Governor, the anti-inflationary shield introduced by the government is an excellent tool to reduce inflation and should be prolonged beyond July, as temporary indirect tax rates on food and energy products are legislated. The government is to consider such an extension, which is obviously very costly in fiscal terms.

3 The zloty

Remarks on PLN were perhaps the highlight of the conference. Glapiński said the NBP is considering to limit its part in conversion of EU funds. Currently proceeds in euro are not converted via the market. The NBP issues a new PLN equivalent and gives it to the Ministry of Finance. The euros are then included into FX reserves. This is a major factor contributing to the zloty being weaker compared to prior to the financial crisis.

Glapiński also noted that the NBP only intervenes on the market if volatility is excessive and has no intention to contribute to PLN weakness. He added that monetary tightening supports the zloty, which is warranted in periods of strong activity to curb inflation.

4 Increase in mandatory reserve requirements

Glapiński considers the rise of the required reserve ratio as a part of monetary tightening. It should also tighten the spread between the POLONIA and the reference rate. We expect this to result in increased demand for deposits among local banks, likely resulting in a rise in deposit rates.

Glapiński's statements confirm a decisive hawkish shift in the MPC's stance. We expect the rate hikes to continue, await another 50 basis points in March, and see the terminal rate of 4.5% being reached in late 2022. A possible transition to partial conversion of EU money on the market clearly points at further PLN gains in the latter part of the year. However, the stand-off with the EU over the judicial system remains a risk.

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