

Poland: Bank governor returns to softer bias but adds some conditionality

We stick to our main take-aways from the last Monetary Policy Council meeting, ie, the central bank is preparing the ground for higher CPI, but not immediate hikes. It needs to see a sustainable GDP recovery and inflationary pressure to start policy normalisation. A November hike remains on the cards in our view



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Press conference highlights

The statement from the June MPC meeting (Wednesday) and Friday's National Bank of Poland Governor Glapinski's press conference were less chaotic than that in May. The Council and governor returned to dovish rhetoric and some of the main statements from previous months, ie: NBP should rather follow major / DM central banks than CEE peers. Also the governor said the CPI rise is temporary and inflation should subside in 2022, and the GDP recovery started but is still uncertain. The NBP also reiterated its preference for a weak zloty to support the GDP recovery, as the most effective and immediate channel of monetary policy transmission. Also the NBP governor repeated the guidance from the June MPC press release that in the current pandemic uncertainty the main priority is to support the GDP recovery, rather than fight against CPI, which is secondary now.

What is new, is that NBP confidence in the temporary nature of elevated CPI is softening. A few months ago the MPC and the governor expected that CPI should subside in 2H21, and in May they

said that it should happen in 2022. During this press conference the year 2022 was also mentioned as a possible timing of the CPI slowdown, but Governor Glapinski no longer mentioned that demand pressure is neutral for CPI now. He also added some conditionality, which should determine the CPI slowdown in 2022, ie, the pace of GDP recovery, strength of labour market and domestic demand.

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Preparing the ground for higher CPI

It seems there is great debate within the MPC about the timing of the first hike and how sustainable is the recent CPI rise. So far about 7 out of 10 MPC members have considered an initial/signaling rate hike. After this meeting the NBP governor said signaling a hike is subpar, the NBP should rather definitely start policy normalisation when it finds prevailing arguments for that. And the sequence of policy normalisation should be conventional, first tapering, then hikes.

The NBP governor also explained that lower Polish government bond purchases recently are not tapering. This is rather caused by NBP asymmetric approach to asset purchases, ie, the central bank is more active when prices decrease than when they rise.

Overall, we see that the NBP is preparing the ground for higher CPI, but not immediate hikes. It needs to see sustainable GDP recovery and inflationary pressure to start policy normalisation. The November hike remains on the cards in our view, which is earlier than the NBP governor said in May (mid-2022). The reasons we see for an earlier hike is that the NBP is slowly changing its bias, even if the governor seems to admit that the 2022 CPI slowdown is conditional. Our models point that core inflation may hardly slow in 2022 and CPI and GDP may surprise consensus on the upside in coming months, so a further change of the MPC bias should continue in the coming months.

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