

Poland: Central bank preparing ground for higher CPI projections, but not immediate hikes

Rates remain flat, however, the passage about the medium-term nature of the CPI target is back in today's statement. A hike in July is rather unlikely, instead we see initial tightening in 4Q21. Friday's press conference by the governor should shed more light on the Monetary Policy Council bias



Rates remain on hold

The MPC decided to leave rates flat as widely expected. The decision was taken quite late, similar to May. But the statement is less chaotic than last month when some parts, presumably these which were most non-consensus for the Council, were simply canceled. The main take-aways from the statement are the following:

(1) The MPC reinforces its narrative about the temporary nature of inflation. We, however, see a weakening confidence in that. In May, the MPC said that the CPI decrease should take place in 2022 (not in 2H21 as the March National Bank of Poland projections showed). In June, the MPC

canceled a few factors which should lower CPI in 2022 (no longer mentions that wages should slow in 2022). The MPC now only mentions the base effect in oil prices as the factor calling for lower CPI in 2022.

(2) The NBP reiterates that its aim is to achieve the CPI target in the medium-term. Last month, the passage which said that the NBP “stabilises inflation at a level consistent with the NBP’s inflation target in the medium term” was simply cancelled. This month it is again back, in two places, ie, when the MPC refers to the NBP Policy guidance and in the summary passage at the end.

(3) The NBP again says that in the pandemic uncertainty, its role is firstly to facilitate a strong GDP recovery, and only secondly contend with the high CPI. This statement returned with the part of summary passage, which was temporarily cancelled in May.

"In our view the Council is preparing the ground for significantly higher CPI projections, but not immediate tightening."

Core inflation should stay elevated

Their new projections will be posted in July. In the previous projections from March, the NBP expected that 2021-22 average CPI should reach 3.1% and 2.8% year-on-year, respectively. In our view 2021-22 average CPI should be 4.3% and 3.8% YoY respectively.

Our inflation models indicate that core inflation should stay elevated in 2H21 and 2022, which is against the NBP view. We worry that the MPC pays too much attention to temporary factors regarding rising CPI. We also see that the MPC downplays: (1) incoming demand side inflation pressure (coming from reopening in 2H21, post pandemic recovery and labour market strengthening, as well as a Keynesian impulse in 2022 from local fiscal programme – “The Polish Deal” and EU Recovery Fund), and (2) structural inflationary factors, ie, consumption boom in the last few years and very weak private investments.

In our view further changes of the MPC bias should take place in the coming quarters. As time passes and with a GDP recovery, the MPC should become less worried about GDP and may hike to prevent elevated CPI from staying for longer. We see an initial hike before the end of this year (around the November projection), but not in July on the occasion of the next projection. The NBP governor’s press conference on Friday should shed more light on the current MPC bias.

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