Hawkish statements from Poland's central bank governor

At today's press conference, NBP Governor Adam Glapiński presented more hawkish rhetoric than in previous months, indicating further interest rate rises. We see one to two hikes by 50 basis points to 2.25-2.75% early next year, then further tightening in the send half with a terminal rate of 3%+

National Bank of Poland (NBP) governor Adam Glapinski

According to Adam Glapiński, there is still significant room for interest rates hikes. The MPC is to continue tightening at the current pace. The Council aims at bringing CPI inflation below the upper bound (2.5%+/-1%) through to the end of 2023. According to Glapiński, it's unlikely conditions will change significantly in 2022 and inflation should stay at an elevated level. We haven't heard any comments regarding second-round effects or the wage-inflation spiral, which we see materialising now.

The NBP Governor traditionally stressed the external drivers of higher inflation, including a jump in energy commodity prices, record-high carbon prices on the EU ETS, and also the recent cost pressure on agricultural products. He added, however, that inflation drivers are also strong economic growth and increased household income. This has been mentioned in MPC communiqués for some time, but the NBP chair hasn't put much emphasis on it before. He noted the recent moderation of prices of maritime freight, but they are to stay at a high level. These factors lead to high inflation in many economies in developed markets, including Poland. No big revelations were anticipated – this was his response to the effects on inflation in the context of the Anti-inflation Shield announced by the government.

The Governor finds the timing of the tightening cycle as about right. The hikes were calibrated to prevent an economic slowdown and increases in unemployment. Other countries in the region – the Czech Republic and Hungary – started to hike rates earlier, but it did little to moderate inflation. Key central banks like the Fed or the ECB didn't change their rates despite the inflation pressures. Instead, they've signalled a tapering of asset purchase programmes, but they're still running at a huge scale.

The governor's comments suggests another one or two hikes by 50bps early next year

Glapiński told us that the NBP had suspended its bond buying programme but is ready to resume it if necessary; the latest QE operations were very limited in scale. Similarly Glapiński said that NBP has no FX target to support or weaken the zloty but aims to reduce excessive volatility. The central bank may still conduct FX interventions in case of market tensions.

The Governor sees factors suggesting long-term PLN gains. He also sees solid GDP prospects, with 4Q21 growth above 5.3% YoY (our forecast is 6.3-6.5%) and strong prospects for 2022.

In our view, the governor's press conference and yesterday's MPC decision suggests another one or two hikes by 50bps (to 2.25-2.75%) in early 2022 (market recently priced above 3% in 1H22). This should be a reaction to a further CPI rise in December and inflation stabilising at a high level after that. Further actions will be decided by the new MPC, hence are highly uncertain. We keep our forecast for a terminal rate of 3% or above. We assume the new MPC could resume the tightening cycle, despite a decline in the headline CPI, as core inflation should remain elevated due to strong internal demand and the wage-price spiral.

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