# Poland: High inflation to persist, central bank gearing towards hikes

We expect rates to remain on hold at Thursday's central bank meeting. With the economy reopening we see upside revisions to inflation and GDP forecasts. We look for a rate hike in 4Q21


A solid 1H21 reflected mostly stellar manufacturing activity. A full recovery is materialising, particularly in services. Improving internal demand, in tandem with mounting price pressures among corporates, suggests persistently high core inflation in 2H21-22. We expect the Monetary Policy Council to start hikes in 4Q, alongside the next projection. Our non-consensus view was recently supported by the National Bank of Poland governor.

## What to expect from the central bank meeting

We expect no policy shifts in July, as the NBP monitor risks for a GDP recovery coming from the Delta variant. Investors will eye changes in the post-meeting statement on the new inflation projection and MPC reaction. We see significant upward revision to the inflation projection by c.1ppt for 2021-22 (INGF 4.1% and 3.5% average year-on-year), and up over 1ppt for the 2021 GDP projection (INGF 5.4% YoY).

On the one hand, Governor A.Glapiński reiterates his view on a temporary nature of inflation and its regulatory / external drivers. His dovish bias was supported by the June downward CPI surprise, particularly on core. On the other hand his comments present a clear trend of bringing forward timing of the initial hike. In April he said no hikes till the end of his term, in May he said the first hike may happen in mid-2022 and in July he said end of 2021 is possible. Also, more MPC members are worried about inflation expectations and sticky CPI.

Market wise any statements regarding QE will be crucial. Mixed messages from the MPC left investors confused whether bond purchases can be continued with a rate hike cycle. We expect the overall communication from the MPC to remain dovish, although slowly rising concerns over medium term CPI prospects, supporting our non-consensus call of a rate hike in 4Q21 (most likely alongside the next inflation projection in November).

## FX and money markets

The zloty remained relatively stable despite the stronger dollar and fading hopes for NBP rate hikes in 2021. This suggests a further €/PLN decline, as soon as the dollar appreciation halts. €/PLN is likely to trade close to 4.50 during the summer holidays but should head to 4.38-40 in the year end. Stronger gains seem unlikely given the NBP stance, which is more dovish than other CEE central banks.

## Domestic debt and rates

Polish government bond prospects are a mix of core developments and no net issuance domestically in the remainder of 2021. This suggests a stabilisation or further declines in yields during the summer holidays. Later into 2021, we expect a renewed rise in yields, alongside core markets, but accompanied with tightening Bund spreads.

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