Poland: MPC stays on hold, excessively benign CPI view for 2022

The Council's statement was little changed, despite a significant upgrade to GDP and CPI projections. The Bank governor should point to CPI returning to its target range in 2022. We are worried about long-term risks and new fiscal stimulus. The individual comments of Council members, including the chairman, still point to a hike, possibly in November

NBP CPI and GDP projections

The Monetary Policy Council decided to leave rates flat and all other monetary parameters unchanged. The most important take-aways from the MPC statement after the July meeting are the following:

1. The National Bank of Poland revised up its CPI projections by 1 percentage point for 2021 and half a point in 2022. For 2021 we have the same CPI forecast, for 2022 the NBP is 0.25ppt lower (see Figure below). According to the NBP projections CPI returns to the range around the target (2.5%YoY+/-1%) in 1Q22, according to our forecasts barely in 2H22. But we also point out that core inflation should stay elevated, ie, the longest period above the 2.5% year-on-year target since

2002.

2. The NBP presents quite a conservative longer term CPI trajectory, we have a bit different opinion on inflation, ie, we are worried about long-term inflationary factors (pro-inflationary structure of GDP, very high CPI before the pandemic, which was not the case in developed countries that want to normalise monetary policy). On the other hand, the NBP still points out that CPI is mostly driven by transitory factors.

3. In addition, for 2022-23 we assume a double fiscal impulse (the EU Recovery Fund plus the Polish Deal, ie, tax cuts and expenses from the Fund financed by BGK, which can be flexibly spent not only on investments). The fiscal impulse coming from local funding (The Polish Deal) is presumably not in the NBP assumptions given that this has not yet passed..

NBP projections and ING forecasts

GDP	2021	2022	2023
mid range of projection from Jul-21	4,95	5,25	5,3
change vs projection from Mar-21	0,85	-0,15	-0,1
ING forecast	5,4	5,0	5,3
CPI	2021	2022	2023
mid range of projection from Jul-21	4,1	3,25	3,35
change vs projection from Mar-20	1	0,45	0,15
ING forecast	4,1	3,5	3,1

Source: NBP, ING

NBP reaction to new projections

The CPI projections were revised up for 2021-22 and for GDP mainly for 2021 significantly. But the statement has not changed much. Actually it is a copy from the previous months, where the MPC stated that the CPI rise is transitory, inflation should subside in 2022 and the transitory deviation even above the upper bound are allowed by NBP Monetary Policy Strategy. The MPC also points out that in the post-pandemic world the main goal is to facilitate the GDP recovery, while the secondary aims are for CPI stabilisation close to the target.

Friday's NBP press conference

On Friday, the NBP governor should hold the usual press conference (at 3:00PM CET). We do expect Professor Glapinski to hold his dovish view, reiterate that the recent CPI spike is temporary in nature and mostly driven by regulatory / external drivers. His dovish bias was supported by the June downward CPI surprise and 2022 NBP projection showing CPI returning to the range around the target in 1Q22.

But on the other hand his recent comments presents a clear trend of bringing forward the timing of the initial hike. In April he said no hikes till the end of his term, in May said the first hike may happen in mid-2022 and in July said end of 2021 is possible. The tone of the communication should be consistent with a recent interview just before the MPC meeting, where he admitted a hike before the end of 2021. That supports our non-consensus call for a hike in November 2021.

Market wise any comment on sequencing the exit strategy is important, whether the standard order still applies, ie, first the end of QE then hikes, or the opposite that asset purchases may continue after the initial hike. Mixed messages from the MPC left investors confused whether bond purchases can be continued alongside a rate hike cycle. Some MPC members propose this new approach, similarly to the National Bank of Hungary.

The coming months

In our opinion, in the following months the Council will gradually change its approach under the influence of new CPI readings, or the November NBP projection. Even the NBP governor, who seemed to be more dovish than many MPC members, shows a clear trend toward earlier hikes.

We stick to our non-consensus call of a rate hike in 4Q21 (most likely alongside the next inflation projection in November).

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