

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).

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.