

## Poland: NBP governor gets hawkish again

NBP president's conference: Worse GDP outlook prompts move to slower hikes in July, but the National Bank of Poland governor tightens his rhetoric again in response to weak PLN and still high inflation risks.



National Bank of Poland in Warsaw

The NBP President's conference had a slightly different tone to a month ago. The NBP President tightened the tone again and retreated from his earlier dovish stance. At the July conference he said: "We are approaching the end of the tightening cycle, although we have not necessarily reached it, we caveat this assessment may change".

In contrast to the June conference, he mentioned less about rate cuts being imminent. On the contrary, the governor said: "As needed we will raise rates, further decisions depend on the data, if inflation is higher after the holidays there will be further increases, if it stabilises there will be no increases."

The switch to a hawkish tone again is a reaction to the ca. 4% weakening of the PLN since the June meeting. It seems, this factor is important in the NBP's reaction function.

Prof Glapinski's comments on inflation were also more cautious than before. He mentioned a possible CPI peak in the summer, but with less conviction than in June.

The comment explaining why there was a reduction in the scale of increases from 75bp to 50bp

was not surprising. The NBP governor said that today the MPC must balance the scale and pace of increases between "dampening CPI and not damaging the real economy". This statement is consistent with our understanding of the new NBP projections.

## Comments on inflation and GDP

Prof. Glapiński's statements on inflation were more cautious than a month ago; according to the NBP, inflation will peak in the summer, but other parts of the statement pointed to persistent risks. In our view, CPI will peak in 4Q22 and 1Q23. Tariff applications submitted to the regulatory office by power companies indicate that electricity prices will not only increase at the beginning of 2023, but may additionally be raised before the end of this year. Further increases in fuel prices including coal and LPG are also to be expected in the autumn.

The NBP President also emphasised that inflation will be lower in 2023. In our view, what the projections show is stubbornly high inflation. Even as CPI falls at the end of 2023, we see persistently high core inflation in our models. We also do not share the view that inflation will decline to the NBP target in 2024.

The NBP President pointed out that the latest NBP projections show a technical recession in 2022 (two consecutive quarters of q/q inflation decline after seasonal adjustment), but not a full-blown recession (as defined by the NBER presumably). He noted that the magnitude of the slowdown in subsequent quarters could be pronounced. A decline in business climate indicators including PMIs. In the opinion of the NBP President, this should limit upward pressure on prices. We also emphasise that projections show a slow rebound in 2023-24. The deterioration in economic growth prospects was the main reason for reducing the scale of interest rate rises from 75bp to 50bp.

## The weakening of the PLN and the NBP's willingness to make FX interventions

The weak PLN caused the NBP to tighten its tone again. So far, verbal intervention appeared: "there is room for PLN appreciation", "if necessary we can spend US\$10-20bn". In a comment on our suggestion that the NBP could use the Czech model and therefore currency interventions if the softening of the tone resulted in a weakening of the PLN, Prof Glapinski said: "we reserve the possibility to intervene".

This does not change the fact that slowing down the pace of interest rate hikes is still a risk for the zloty, especially in an environment of a strengthening dollar and fears of recession in Europe. Moreover, during the conference, the NBP President stated that although the weakening of the zloty is currently against the direction of NBP policy, he does not currently see the need for currency interventions to defend the zloty. Another problem is the deterioration of Poland's external balance, i.e. the growing current account deficit, caused by strong domestic demand and high energy commodity prices.

As a result, the risk of the €/PLN pair rising above 4.80 in the near term remains high. A return of the €/PLN pair to the peaks from the shock period triggered by the Russian aggression against Ukraine (c.5PLN/€) is not our baseline scenario, but it cannot be ruled out should market sentiment deteriorate further.

## Summary and conclusions.

Main takeaways from the NBP President's conference: in our view, the end of the hike cycle is still far off. The President was more cautious about the imminent CPI peak (in our view, it will be later than in the summer), and additionally the weak PLN has caused his rhetoric to tighten again. In our view, there will be further rate hikes, but on a smaller scale (around 50bp rather than 75-100bp). We still believe that the rise in inflation in 4Q22 and 1Q23 and the longer-term inflation risks will require the NBP rate hike to around 8.5%.

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