

Poland's central bank governor plays down quick policy normalisation

At today's online conference, National Bank of Poland Governor Adam Glapiński reduced expectations of a prompt normalisation in monetary policy. But the minutes from the June MPC meeting suggest that hawks in the MPC have shifted from words to deeds



Bank of Poland
governor, Adam
Glapiński

Source: Narodowy Bank Polski

Upward revision to inflation projection does not matter that much to the governor

At today's online conference, the NBP's governor tried to play down the significance of the latest upward revision to the inflation projection. He stressed that the latest inflation reading for June,

especially base inflation, was well below market expectations. He repeated that base effects and supply and regulatory factors are the main inflation drivers, and monetary policy has no impact on these developments. He noted that wages are growing at a moderate pace and employment still remains below pre-pandemic levels. According to Glapiński, when the effects of a low statistical base fade away, inflation will slow down by itself, as demonstrated by the July inflation projection.

NBP sees proposed fiscal stimulus as an investment programme

According to the NBP, fiscal stimulus in the form of the National Recovery Plan will not be inflationary. This is because it's an investment plan aimed at increasing the production potential of the Polish economy, which should dampen inflation in the long run. In addition, proposed tax cuts for low-income earners in the Polish Deal may lower the pressure on wage increases.

In its decision, the NBP has taken into account the monetary policy of foreign central banks, including those committed to zero interest rates for at least two years (Federal Reserve) and those that have softened their policy stance, as per the European Central Bank's latest strategy revision. Although the Czech National Bank and National Bank of Hungary recently started a cycle of interest rate hikes, their decisions are driven by intrinsic domestic factors, which are different from Poland's conditions. The NBP governor feels no pressure to follow the path of the central banks in the central and eastern European region.

Three conditions for interest rate hikes in Poland

Governor Glapiński presented three conditions for the MPC to start interest rate hikes:

1. A fourth wave of the pandemic weakens the economy,
2. The inflation projection envisages a permanent overshoot of the upper band of the NBP's inflation target, i.e. higher than 3.5%,
3. Demand factors are the main inflation drivers.

The November inflation projection will provide an initial opportunity to check these conditions, and kick-off the discussion on the potential policy normalisation. On one hand, the chances of the MPC making a decision on an interest rate hike have been reduced after today's conference. On the other hand, the minutes from the June MPC meeting show that the 'hawks' in the Council have shifted from words to deeds and are starting to raise the prospect of interest rate hikes.

Once again, the NBP governor repeated his view that the QE programme will need to be terminated before any interest rate hike. In his opinion, this is a natural sequence in the monetary policy normalisation of credible central banks.