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POLAND

Poland: The stagflation scenario is already there

Inflation is losing momentum but is still setting new multi-year highs. The PMI collapse is supporting our expectations for a technical recession in 2022. The National Bank of Poland has a tough choice after massive CEE rate hikes, but a dovish central bank move would weaken the currency



We expect the National Bank of Poland to hike rates by 75bp in July

In Poland, CPI inflation for June rose to 15.6% year-on-year, another month without upside surprises.

You may see some positives that are important for financial markets (which are recently paying more attention to lower inflation or weaker activity than hawkish central banks):

- The lower growth of food prices (0.7% month-on-month instead of 1.3% and 4.1% MoM in May and April, respectively)
- A marginally slower rise in core inflation MoM (0.9% MoM against 1.0% and 1.3% in May and April, respectively).

These tendencies are seen less in CPI MoM at 1.5% MoM, which was boosted by fuel prices (9.4% MoM).

However, there is nothing to be happy about here, as inflation is still reaching new records (15.6% YoY is its highest level since February 1997). The problems are very high inflation expectations and second-round effects. A failure to control these processes is a risk for the NBP inflation target and points to CPI persistency.

The situation gets complicated. The strong hikes of the CEE central banks boosted expectations for aggressive NBP tightening. But the strong decline in PMI signals a major slowdown, and we see a technical recession in 2022, while stagflation is already there.

In our opinion, if the monetary policy council gives too much attention to weak PMI and raises rates by 50bp, only then should the Polish zloty (PLN) weaken. In the case of a 75bp hike, this would cause a slightly negative PLN, while a 100bp will be neutral/positive for the PLN. We expect an NBP hike of 75bp in July, which should be accompanied by a dovish comment.

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