

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.

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>.