

## Poland: NBP governor's press conference

The MPC is at a crossroads, approaching the moment of monetary policy normalization, which may take the form of an end to QE end or a rate hike. The November projection is key.



### An overview of inflation and the economy

Governor Glapinski started the press conference with familiar dovish comments that currently elevated inflation is a global phenomenon. He said that the Council is concerned about the high level in Poland, but pointed out that half of the current price growth is due to a supply shock. The MPC should not react to it. Glapinski reiterated that a fall in CPI is expected in 2022, with a return to the range around the target in mid-2022.

During the press conference, however, a few new elements appeared which indicate that the Council's approach is evolving towards a tightening of monetary policy. One new element is the admission that a source of inflation in Poland is also demand pressure, although this is associated with the opening up of the economy and it is not clear whether it is sustainable in 2022.

The Governor shares our view that the structure of GDP in Poland is far from favorable, with high consumption and low investments. In our opinion, such a structure is inflationary, and had already started to strengthen before the pandemic.

We also heard that the economic recovery has just started and employment is still 100 thousand

people lower than before the Covid recession. Thus, premature tightening could be harmful to the recovery. However Prof. Glapiński agrees with our assessment of the fading impact of the pandemic on the economy. He also pointed out that the impact of the fourth wave of the pandemic should be known by November-December as the peak of this wave is expected to materialize soon. According to the Governor, NBP forecasts no longer assume a lockdown in Poland.

## The timing of monetary policy tightening

The overall tone of the press conference remained dovish, although there are sequential changes which suggest growing propensity to normalize monetary policy.

The timing of monetary policy normalization was discussed several times during the conference. When asked about the opinion of MPC ultra dove Eryk Łon that rates would be unchanged until the end of 2021, he refrained from agreement with this view. But then he admitted that he would like to raise rates as soon as possible, which means in early 2022. At the very end of the conference, however, a comment was made that "I do not know if in March or November". He added that more will be known about the impact of the pandemic on GDP soon (this is one of the conditions for the start of normalization) and said "let's stick to November, I can't do more about March". The November update of the projection by the NBP will be key.

The NBP governor emphasized that the Council has two instruments at its disposal, quantitative easing and rates. Considering the fact that we heard from NBP governor that tapering has already started, it may mean that the next step on the way to tightening may be the end of QE, or a rate hike, or both decisions at the same time.

In our opinion, the conference does not rule out our scenario assuming a November rate hike. Moreover, the president's comments confirm that three conditions for a rate hike may be met already in November, something we wrote about in yesterday's commentary after the MPC meeting. The chances for a November rate hike, although still not much higher than 50%, have not fallen after today's press conference. We are wondering whether the next MPC decision may be the end of QE or a hike, because Professor Glapiński admitted that de facto tapering has already started.

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