

## Poland's central bank governor offers ambiguous rhetoric, but another rate hike looks likely

We expect another rate hike in November, most likely 25 basis points, despite the ambiguous rhetoric from National Bank of Poland Governor Adam Glapiński. CPI should continue to surprise to the upside into year-end. More fiscal stimulus next year is also a major risk for price stability



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At today's press conference, NBP Governor Glapiński explained the rationale behind yesterday's 40bp interest rate hike.

Professor Glapiński reiterated his earlier statements on supply-side factors as the major drivers of high inflation. As a new issue, he mentioned further price increases in commodities, which translate into a higher consumer inflation path and more persistent inflation than initially expected.

Other new elements in the Governor's rhetoric, which we already mentioned in yesterday's comment, are the following:

- Less concern about pandemic developments and optimistic growth prospects;

- Stronger trust in a solid labour market improvement, which – together with faster GDP growth – raises the risk of second-round effects.

Therefore, in anticipation of the November inflation projection, the MPC hiked rates yesterday, and this is a higher and a faster hike than expected by market participants.

The MPC does not expect the decision to lower inflation in the short term. Its purpose was to prevent inflation from persisting above the inflation target in the medium term given the risk of supply shock transmission on inflation expectations.

The discussion on the next interest rate hike was traditional for central bankers in that it avoided firm statements. On the one hand, the Governor warned that the 40bp hike was an anticipatory move and the MPC will now wait longer to see the effects. On the other hand, the Council maintained flexibility in its reaction and signalled it will closely watch economic developments and inflation prospects.

Glapiński's statement does not exclude another hike this year in our view, for the following reasons:

- The next inflation projection (November) should show a higher CPI path in 2023 (2.4% year-on-year in the previous one);
- The chairman didn't comment on the impending fiscal impulse in 2022, the factor may be underlined by MPC members not present at today's press conference;
- The MPC expects CPI to reach 6% YoY in the year-end, we think it may even be 6.8% YoY;
- Glapiński sees no risk of second-round effects, a view unlikely to be shared by all MPC members.

Hence we see a significant probability of another rate hike in November, alongside the next projection. We expect 25bp, but would not exclude 50bp. The reference rate should be a terminal level of 2% next year.

Glapiński said that QE remains within the NBP's toolkit, however in his view this has already expired. The NBP will conduct another bond auction this month, but the chairman doesn't expect significant activity.

According to Glapiński, the current PLN rate is supportive for the economy. The NBP may intervene though, should excessive volatility emerge.

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