

Poland: Central bank sets guidance for exit strategy

The National Bank of Poland has opened the door for monetary policy normalisation. We see tapering starting in 2H21 and the first rate hike in 1H22, earlier than our previous baseline of 2H22. The Council was behind the curve and should catch up soon. The strong fiscal stimulus from the Recovery Fund and local budget are also arguments for the NBP to act



Source: Shutterstock

The unchanged NBP view on current inflation

On Friday NBP Governor Glapinski held a press conference following this week's MPC decision. This month the Monetary Policy Council left interest rates unchanged, but our take from the meeting was that the dovish camp softened significantly as well as the MPC's confidence about the temporary nature of elevated CPI. Following these changes the NBP governor tweaked his rhetoric significantly. Professor Glapinski sounded significantly less dovish than last month, he set the guidance for exit strategy from the current ultra-accommodative monetary policy and named the triggers which should further change MPC attitude.

NBP Governor Glapinski sounded significantly less dovish than at last month's press conference.

The beginning of the press conference was quite similar to the previous one. The NBP view on current inflation hardly changed. According to the NBP governor, the elevated CPI is caused only by the factors outside of the monetary policy impact. The supply factors, which cause high CPI are oil prices, electricity (both 2 percentage point contributions out of 4.3% year-on-year in April 2021) and garbage collection prices. According to the NBP, the demand pressure is very limited and should stay low in the following months of 2021. He also denied that the accommodative monetary policy is responsible for the highest CPI in the EU.

NBP opens the door for monetary policy normalisation

However, what changed were the comments on future monetary policy. Governor Glapinski said the MPC no longer discusses rate cuts, is ready to tighten if needed and was less confident that rates should stay flat till the end of the MPC Term in 1H22.

That is significant changes of rhetoric. In previous months he rather mentioned a long period of flat rates and indefinitely long period of asset purchases, while this month he declared that the MPC is ready to normalise policy if needed.

Policy normalisation could start in mid-2022.

The NBP governor also set the guidance for the exit strategy. According to Glapinski, the MPC may start discussions about monetary policy normalisation in mid-2022, when demand pressure should get risky for CPI. The sequencing should be quite obvious, ie, first tapering of the asset purchase programme and then hike rates.

The timing of ECB tapering, elevated NBP projections in July 2021 and demand pressure caused by reopening are key factors, which may trigger policy normalisation.

The MPC's benign view on CPI should further change

We think the NBP should start discussion about monetary policy normalisation much earlier than in mid-2022. Our two 2021 macro calls for this year were higher GDP dynamics and CPI than consensus and NBP expectations. Both are materialising even faster than our above-consensus expectations. We recently revised our 2021 GDP dynamics to 4.8% YoY and expect average CPI at 4.0% YoY in 2021 and 3.4% YoY in 2022. Given these dynamics we also expect that monetary policy normalisation should happen earlier than Governor Glapinski pledged. The NBP was significantly behind the curve and should catch up gradually in the following months.

The incoming fiscal stimulus is an argument for sticky CPI and higher rates

There is still much space for rationalisation of the MPC's benign view on CPI. Both the governor's and MPC's view on CPI is too low in our view and we see other factors than supply shocks which are causing high CPI and may cause it to stay sticky in 2022 (inflation pressure coming from pent-up demand is to come in the following months, also the GDP structure with a high consumption contribution gets very inflationary, and the PiS government prepared space in the Convergence Report for social spending while the Recovery Fund should accelerate public investments).

The tapering should start in 2H21

We see tapering starting in 2H21 and the first rate hike in 1H21, earlier than our previous baseline assuming 2H22. Still the NBP should follow the ECB and refrain from much faster monetary policy normalisation as it targets a weak PLN.

NBP on CHF loans conversion

Governor Glapinski also said explicitly the condition commercial banks need to satisfy in order to get NBP support in the CHF loans conversion. In previous months, he said the “majority of banks” should join the local regulator’s (KNF) proposal on CHF loans settlement with clients. But on Friday he said that 50% of banks should join the scheme in order to get NBP support with CHF loans conversion. That sounds like some softening of his stance. Both a more hawkish NBP tone and statement on CHF loans conversion are PLN positive.

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>.