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

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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.

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