

## Poland's central bank wants to follow the ECB, not the CNB

We don't share the National Bank of Poland's complacency with regards to the 2021-22 CPI outlook, but maintain our view of flat rates until the end of the Monetary Policy Council and president's term in mid-2022. The central bank's tolerance to upside CPI surprises has grown



The NBP president Adam Glapinski was very clear during the press conference and said that the odds of a rate hike, or any form of tightening, are now basically zero. He noted that the NBP should follow the ultra-dovish approach of the Federal Reserve and European Central Bank, and is very far away from tightening. The newly-released NBP projections, including higher CPI and GDP forecasts in 2021-22 (please see table below) have not changed the MPC's bias, which sees more space for further easing than tightening.

The NBP has shown high complacency with regards to the CPI outlook, which we don't share, but we do agree that the NBP should keep rates flat, with the purchase programme open (maybe inactive but open) until mid-2022 when the term of the current MPC and NBP president ends. Glapinski said the only reasons behind the elevated CPI readings have been exogenous factors i.e. electricity prices due to the EU's carbon policy, oil prices due to the expected recovery of global

GDP, as well as garbage collection prices due to local regulations. There is no endogenous inflation pressure. He also downplayed the inflationary signals caused by supply disruptions during the pandemic.

The NBP wants to follow the ECB and Fed in its dovish approach despite the fact that Poland did not experience the pre-pandemic lowinflation environment seen in developed markets. The core inflation measure, which excludes two out of three inflationary factors mentioned by the NBP president, reached a record high of 3.6% year-on-year pre-Covid. This is the opposite situation to that seen in the eurozone and US, which were unable to get close to their CPI targets on any sustainable basis.

Poland had the lowest unemployment in the EU at the end of 2020 and we, and the NBP, expect a robust GDP recovery in the coming years (the NBP is slightly less optimistic than ING on 2021 GDP, but very bullish over 2022-23 expecting 5.5% YoY GDP growth). As such, we don't subscribe to the NBP's view that CPI should continue to slow from the 3.4% YoY average in 2020 to a 3.1% YoY average in 2021 and only a 2.8% YoY average in 2022. We see CPI staying above target (2.5% YoY) in both 2021 and 2022.

The NBP president also said that rising yields reflect a better GDP outlook, so rising yields are not seen as an adverse phenomenon. He claims the asset purchase programme should stay open, maybe indefinitely, but rather to support the government than to prevent fundamental yields from rising.

In his view, rising real estate prices should be addressed by macro-prudential measures rather than higher rates. The NBP president also said he sees low odds of banks agreeing on a common approach to solve the Swiss franc mortgages saga, and so he also see low odds of NBP involvement in mortgage conversion in the near-term.

#### GDP and inflation projections

	2021	2022	2023
<b>GDP</b>			
mid range of projection from Mar-21	3.95	5.45	5.4
change vs projection from Nov-20	0.85	-0.25	-
ING forecast	4.5	5.0	
<b>CPI</b>			
mid-range of projection from Mar-21	3.15	2.8	3.2
change vs projection from Nov-20	0.55	0.1	-
ING forecast	3.1	3.4	-

Source: NBP, ING forecasts

Overall, we maintain our view of flat rates until the end of the MPC and NBP's president term in mid-22. We recognise that central bank tolerance to upside CPI surprises has grown recently, which supports our trade idea we recently posted.

#### Author

##### Rafal Benecki

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto: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>.