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 lowflation 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
GDP			
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	
CPI			
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.

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