

## Poland hikes rates by 50bp

The MPC raised interest rates by 50bp. We see a rather less aggressive but longer tightening cycle than that priced by the market. We see the terminal rate above 3% at the turn of 2022-23. Thursday's press conference may sound more dovish than the statement, but this shouldn't change our expectations for further hikes



The December hike came after a 40bp increase in October and 75bp in November. The main rate is currently at 1.75%. The hike was in line with our expectations and the consensus of economists. The market was expecting a much more aggressive move.

The pace of tightening in Poland (so far 165bp) is slower than that of other central banks in the region. So far, the Czech central bank has raised rates by 275bp (from 0.25% to 2.75%), while Hungary has hiked by 150bp (but effectively 230bp) from 0.6% to 2.1% (the deposit rate is even up to 2.9%).

We see the main changes in the statement as signals pointing to further tightening. The Council mentions that there is a risk of inflation staying above target in the medium term, and that the supply shocks may last longer. Surprisingly, the statement also concedes that elevated CPI is not only caused by external supply shocks, but also by strong GDP (closing the output gap) and robust incomes.

GDP growth has proved to be strong recently and the economy has been more resilient to the pandemic shock. The Council has also reiterated that it will aim to lower inflation in the mid-term, but will also focus on labor market conditions (which have proved to be stronger than expected recently). This suggests that the arguments from MPC hawks have broadened out across the MPC, and consistent upside surprises are changing the bias.

Prior to the December NBP decision, the market priced the reference rate at around 3.15% by the end of 2Q22 and to 3.0% by the end of next year. So investors expected a very prompt rate hike cycle at the turn of the year and a relatively prompt end in the first half of next year, as headline CPI is expected to decline from 2Q22 onwards.

Given our CPI forecasts and the tone of the MPC statement, we rather expect the rate hike path to be flatter and spread over time, but we still see the terminal rate close to what the yield curve is pricing. We see the reference rate reaching 3% at the turn of 2022/23. Not long ago, some MPC members wanted to hold off from further hikes in order to assess the effects of the actions already taken. Since the latest CPI surprises, that rhetoric has changed, and the hawkish arguments appear to have spread within the MPC. Given a less frontloaded tightening cycle, we expect EUR/PLN to rise though we don't see major risks to the zloty. Thursday's press conference may sound more dovish than the statement, but shouldn't change our expectations for further hikes. We expect the PLN to end the year around 4.65/€.

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