

Snap | 4 January 2022

POLAND

Poland hikes rates by another 50 basis points

The Monetary Policy Council raised rates by another 50bp in January after a 50bp hike in December. The main policy rate in Poland is currently at 2.25%. The decision was in line with expectations



The Polish monetary authority still lags behind other Central and Eastern European central banks as regards to the scale of monetary tightening during the current cycle. The National Bank of Poland has lifted rates by 215bp so far vs a 350bp increase by the Czech central bank and 325bp jump in the weekly deposit rate in Hungary.

The post-meeting press release was little-changed as the NBP had adjusted its rhetoric earlier. A significant shift in both central bank rhetoric and market expectations took place in December. Similar to the December communique, the MPC admitted that inflation will remain elevated in 2022 and beyond.

Poland's economy remains on the path of buoyant recovery and high-frequency data point to its resilience to another wave of the pandemic. Recent increases in energy prices will feed into broader categories of goods and services prices in the coming quarters. Inflation-curbing fiscal measures, including a temporary VAT rate and excise duty cuts on electricity, gas, heating and fuels, will trim inflation growth in the first half of 2022, but extend the episode of elevated inflation in time. As a result, the MPC will be forced to raise rates further in the course of 2022.

In our view, a more accurate assessment of inflationary trends and price development prospects will be possible after the temporary indirect tax rates cuts terminate. Since core inflation will remain persistently high, we assume rate hikes to continue in second half of 2022 and in 2023.

Given our inflation forecast (annual average CPI growth of 7.7% in 2022 and above 5% in 2023), positive output gap and the tone of MPC rhetoric recently (even the NBP governor admitted in December that the MPC has significant space to tighten) we project that by the end of 2022 the main NBP policy rate will increase to 4%, which is broadly in line with the scenario priced-in by the fixed income market. In our opinion, in 2023 the cycle will end with the NBP reference rate at 4.50%.

We expect that in the face of a prolonged period of elevated inflation, MPC chair Adam Glapiński will suggest the Council remains open to further monetary tightening this year, which should support the zloty. We expect the PLN to end this year around 4.45/€.

The January MPC meeting will be the last one for two MPC members appointed by the Senate. At the end of January, two out of three Senate members should leave, ie, Eugeniusz Gatnar (hawk) and Jerzy Kropiwnicki (swing voter). They will be replaced with new candidates, ie, Ludwik Kotecki and Przemyslaw Litwiniuk, who will be appointed on 12 January. We believe the new MPC members should show a similar bias to those who are leaving their posts (Ludwik Kotecki may be slightly more hawkish than Eugeniusz Gatnar). The third candidate from the Senate, Joanna Tyrowicz, should replace the outgoing Rafal Sura by November 2022 at the latest. She should hold a more hawkish bias than Sura.

Author

Rafal Benecki

Chief Economist, Poland
rafal.benecki@ing.pl

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