

Poland: Moderate hike but more to come

The inflation risk, mentioned by the National Bank of Poland governor a month ago intensified, so a 75bp hike (instead of 100bp) should not be seen as a softening of the Monetary Policy Council's hawkish stance. Tomorrow's press conference should deliver more clarification. We see the terminal rate at 8.5%+ at the turn of 2022-23 vs 7.5% expected earlier



The Monetary Policy Council hiked the National Bank of Poland interest rates again, but "only" by 75 basis points (to 5.25%). We expected 100bp, and so did the consensus. Most of the factors Chairman Glapiński underlined in April, as backing for the 100bp rate hike, only intensified so a moderate hike is a bit disappointing. Maybe the NBP has chosen the same path as the Fed did yesterday.

In the previous month Governor Glapinski mentioned the following decisive factors, which even intensified since then:

- "Inflation indeed continues to accelerate": CPI stood 0.5 percentage points above expectations in April, but on the top of that we expect a later and higher CPI peak around 15-20% this October.
- CPI is getting more persistent - indeed, for the last 4 consecutive months core

inflation continues to rise by +1% month-on-month, never seen in history before. Moreover, a full transition of the commodity price shock into core CPI is also going to take another 2-3 quarters.

- Glapiński also noted demand-related factors behind the inflation, support by fiscal expansion. In our view fiscal easing in Poland has been so aggressive so far, that the policy mix (fiscal and monetary) has started to tighten only recently, and the recent proposals of mortgage holidays also softens the impact of hikes (subject to instrument availability).
- Very strong 1Q22 (8.5% year-on-year) suggest 2022 GDP growth around 3.5-5% YoY.
- War in the Ukraine proved to have a stronger impact on inflation, rather than on GDP.

Given all of the above, further rate hikes are required. We see the terminal rate of +8.5% to be reached in the fall of the year.

Today's press release is not very different from the previous one in April, when interest rates were hiked by 100bp. The main change is a bit more upbeat MPC tone on the short-term GDP outlook, but there is still heightened uncertainty for the coming quarters (but no major changes here). It is difficult to find the rationale for a lower hike (75bp instead of 100bp expected) in the statement. Tomorrow's, NBP president's conference will explain why "only" 75bp.

The NBP hike came in below market expectations (100bp). This resulted in PLN weakness (although this also reflected a decline in €/US\$). However, we expect this to be only temporary. A slowing down of the hike cycle does not foreshadow a prompt end of hikes, as inflation risks underlined by Chairman Glapiński continue to intensify. The interest rate disparity against the euro is already significant and should support the zloty as soon as the Central and Eastern European market sentiment improves. We expect €/PLN to move below 4.60 as soon as in the turn of the month.

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