

Snap | 5 January 2022

Poland's Glapiński supports more rate hikes

NBP Governor, Adam Glapiński, says there is still scope for more monetary tightening, and rates returning to 3 or even 4% shouldn't be harmful to the economy. He thinks the central bank should maintain the current rate hike scale, although its frequency could be reduced.



The National Bank of Poland Governor, Adam Glapiński

More hikes to come

The Governor of the National Bank of Poland, Adam Glapiński, says he favours at least one more rate hike of 50 basis points. At a news conference, he indicated that reducing the size of rate rises could indicate that the tightening cycle could soon be over, which wouldn't necessarily be so. Increasing it might indicate that inflationary pressures continue to rise. Therefore, he would prefer not to change the scale of current rate hikes and he would advise the Monetary Policy Committee to deliver something similar to yesterday's 50bp rise.

He considers 3% as a safe rate level, perhaps even 4% if economic prospects improve. He added that positive real interest rates are not a requirement. The overall statement is consistent with his opinions from the December press conference when he said there is still significant room for interest rates hikes. Still, it seems that after the series of rate hikes, support for further tightening is fading and the NBP is starting to move away from other CEE

central banks again. It's worth noting that Glapiński also underlined that the central bank should not aggressively fight inflation at the cost of a significant rise in unemployment.

Inflation should peak around June

The MPC chairman expects CPI to peak in the middle of 2022, as the anti-inflationary shield expires (according to the current government plan). CPI should subside later on but remain above the NBP's upper target band (3.5% YoY) until the end of 2023.

Glapiński considers the elevated CPI as a result of external supply shocks. He says that strong economic prospects may add to price pressures but internal sources of inflation are still absent in Poland.

Our main takeaways

We see different sources of elevated inflation than the MPC chairman. External shocks were amplified by a pro-inflationary GDP structure in Poland, based on a consumption boom. High CPI also reflects demand pressures and a wage-price spiral, the impact of which will only grow this year.

Our different take on inflation sources is a reason why we see elevated CPI to be more persistent, and we'll get higher terminal rates than Glapiński envisages. We expect the NBP to increase rates to 4% in 2022 and conclude the cycle at 4.5% in 2023.

The beginning of the year will be a focal period to verify the chairman's opinions as the impact of higher energy prices materialises. We see annual average CPI growth of 7.7% in 2022, peaking at around 8.5% YoY in 1Q22 and 8.7% YoY in mid-2022. We expect inflation to remain elevated even after the price of energy commodities starts to subside. Companies are still in the process of passing rising costs onto consumers. This is encouraged by strong internal demand, driven by a tight labour market. In 2023 we see CPI above 5%, hence it should subside slower than the NBP expects.

Glapiński also informed us that the 2021 NBP financial result should be significantly higher (above PLN10bn) than PLN9.3bn reached in 2020. This likely reflects a higher valuation of FX reserves given PLN depreciation, notably against the dollar.

The chairman again underlines that the NBP does not target any PLN rate and intervenes in case of excessive volatility. Glapiński also notes that the central bank currently has no plans how to manage its bond portfolio acquired during the course of its QE programme.

We expect the National Bank of Poland to hike rates up to 4% at the end of this year and to conclude the cycle at 4.5% next year. This is higher than indicated by chairman Glapiński. We think that even with his shift towards more hawkish rhetoric late last year, he still represents

the dovish wing of the MPC.

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