

## Poland's central bank raises rates by 100bp and there's more to come

The National Bank of Poland surprised to the upside yet again with its 100bp rate hike; the consensus was half that. The main rate now stands at 4.5%. We think the market's underestimating future rate hike trajectories. The move is positive for the zloty



National Bank of Poland governor, Adam Glapinski

Today's strong move by Poland's Monetary Policy Committee takes its main rate to 4.5%. We see it reaching 6.5% this year and 7.5% in 2023. That's more than is being priced in by the markets. The move is positive for PLN and is likely to translate into a flattening of the yield curve. Investors are likely to start withdrawing bets on rate cuts in 2023.

Given these latest developments, our projection of the main referent rate hitting 6.5% this year is becoming less controversial. We believe more rate hikes are ahead. Gauged by the impact on GDP, the scale of the restrictive monetary tightening cycle is close to the size of the expansion of fiscal policy. The global economy is experiencing a new commodity shock caused by the Ukraine war, and the local labour market is very tight; it will be difficult to tame CPI inflation without sizeable monetary tightening.

The post-meeting press release is not very different from last month's and gives no hints as to the rationale behind accelerating monetary tightening now. We think that the 100bp rate hike reflects the current reaction function of the MPC that focuses more on inflation and the exchange rate and less on GDP.

Currency factors were less important in April as the PLN has regained a sizeable amount of its recent losses. We sense that March's CPI inflation figure was a big negative surprise for the Council, hence its strong reaction.

We believe the current macroeconomic environment requires further rate hikes. We have supply-side shocks in three markets: energy, metals, and foodstuff. Those cost increases have only just started feeding into consumer prices, and this will continue for several months.

On top of that, strong second-round effects can already be seen in core inflation. The substantial scale of fiscal expansion requires stronger monetary tightening. De-anchoring of inflation expectations may become a serious problem in the future which could make it even more difficult to curb inflation further down the line.

That's why we think policymakers decided on a bold move this month. And it's why we stand by our call of seeing an NBP rate of 6.5% in 2022 and 7.5% next year.

Today's MPC decision fits into our scenario, assuming that the scale of monetary tightening in Poland will be larger than priced in by the market after the release of the March flash CPI data.

In our view, it will put further downward pressure on €/PLN, pushing it towards 4.58-59 in the coming days. The higher pace of monetary tightening also paves the way for stronger zloty appreciation for the remainder of this quarter. €/PLN may reach 4.50 within the next couple of months. It is even more likely given signals that the €/US\$ decline is losing momentum.

As for Polish government bonds, we still expect POLGB yield increases and curve flattening. Not only do we think that the scale of monetary tightening will be larger than assumed by investors so far, but we also believe that market participants will gradually start withdrawing bets on rate cuts priced in for 2023.

## Authors

### Rafal Benecki

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

### Adam Antoniak

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

### Piotr Poplawski

Senior Economist, Poland

[piotr.poplawski@ing.pl](mailto:piotr.poplawski@ing.pl)

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