

Snap | 8 March 2022

POLAND

Rate hike in Poland to support zloty, combat inflation

The National Bank of Poland seems too overly optimistic with regard to 2022 GDP, but pessimistic for 2023-24 when the new fiscal boom may happen in Europe. A moderate 75 basis point rate hike in March sends a calming message to the hesitant FX market



The decision

The Monetary Policy Council increased rates by 75bp – slightly more than our forecast at 50bp, but visibly below the most aggressive expectations (100-125bp). The market was pricing a 75-100bp hike.

New projections

- The NBP sees moderate risk to GDP in 2022 from the war in Ukraine (we are more pessimistic), but seems to be overly pessimistic for 2023-24. It assumes even higher inflation than before the military conflict started. The NBP perceives the zloty (PLN) weakening as temporary.
- We see more profound risks to 2022 GDP stemming from the fighting in Ukraine, but are more optimistic on economic prospects for 2023-24. The euro area and Poland are ahead of the new fiscal boom, aimed at rising military spending and reducing

dependence on energy from Russia. We see high odds that a New European Recovery Fund may be launched. Obviously there are additional threats like a new oil crisis that could tame consumer spending, but this is not our baseline scenario. In Poland we expect anti-inflation measures to be extended in time. We project slower growth in 2022, but see stronger growth in 2023-24 than the NBP.

- The new inflation projection is very high over the entire horizon. Presumably, for 2022 it does not assume the extension of anti-inflation measures for the second half of this year that knocks-off some 1 percentage point from the annual average inflation. Still, the CPI projection for 2022, even adjusted for the longer anti-inflation shield (9.8%), is high and probably envisages the scenario of high oil prices, new food price shocks and pass-through from a weaker PLN.

Rates outlook

- Taking all the above into account we see a risk that the terminal rate may turn out higher than the 4.5% we had projected so far. We are more optimistic than the NBP with economic prospects for 2023-24 as the generous fiscal spending in Poland and the euro area mean that the rate-hike cycle will be continued in 2023, as we expect.
- The outbreak of military conflict in Ukraine rather calls for higher inflation and higher interest rates prospects than had been expected before. NBP governor A. Glapiński's comments at tomorrow's press conference will be of key importance with this regard.

Impact on PLN

In our view the 75bp hike is a reasonable decision. We prefer consequent rate hikes addressing the issue of persistently high inflation over aggressive moves that the public could perceive as a sign of high risks to the stability of the economy or the financial system. The PLN weakness mainly reflects problems some investors have with closing their exposure to Russian assets. Tomorrow's press conference of the NBP governor will shape hike expectations.

New MPC members

The composition of the MPC changed substantially over the last two months. Apart from the governor A. Glapiński only three 2021 members remain in the Council (C. Kochalski, R. Sura, J. Żyżyński). Today's sitting was the last one for Żyżyński and the lower house (Sejm) have not yet chosen his replacement. Sura is proposed to move to the Supreme Administrative Court and to be replaced by J. Tyrowicz (already approved by the Senate). Kochalski still has some time to serve as he was appointed in 2019 for a six-year term. Members chosen by Senate (L. Kotecki, P. Litwiniuk) should be less influenced by Governor A. Glapiński's opinions than their predecessors.

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