

Rate hikes by the National Bank of Poland are far from over

CPI is set to remain elevated even after commodity shocks fade. A consumption-based GDP structure will only be galvanised by fiscal policy and refugee inflows. We see the National Bank of Poland pushing the reference rate to 6.5% in 2022 and 7.5% in 2023



We are keeping our 2022 GDP forecast at 3.2%, but signal upside risks. Early 2022 data has been very strong (particularly industrial production), calling for first quarter GDP growth of 7-8% year-on-year. The war in Ukraine will significantly affect trade (with a 50%+ drop in exports to both Ukraine and Russia). However, fiscal measures (3% of GDP announced so far) and the hosting of refugees (about 0.7-1.4% of GDP) should boost consumption, despite high CPI and confidence shocks.

Strong consumption should facilitate second-round effects, ie companies can pass higher costs (commodities, wages etc) on to CPI. The process remains underway, as pointed out by business surveys such as the PMI. Fiscal policy will only worsen long-term inflation risks. Given that, we have revised up our CPI forecast for 2022 to 10.5% on average (with upside risks) and 8.4% year-on-year in 2023.

Recent comments from the monetary policy committee (MPC), including from National Bank of Poland (NBP) Governor Adam Glapiński, suggest a shift towards a hawkish bias, targeting lower CPI and a stronger zloty. Our analysis indicates that rates should reach around 7.5%, with our GDP and CPI forecasts for 2022-23 based on if the MPC bias is similar to the Council in 2010-16 (it was more hawkish than the MPC over 2016-22, but moderate in historical terms). Our central forecast for NBP rates in 2022 is 6.5% and 7.5% in 2023. We look for a 50bp hike this week (with upside risk) and still hawkish rhetoric – given the above CPI backdrop, NBP willingness to strengthen the zloty amid hawkish regional rhetoric, and a suboptimal policy mix (substantial fiscal easing) which raises the risk of persistent CPI.

FX and money markets: We see substantial scope for zloty recovery in 2022. €/PLN should near 4.50 by year-end, or sooner. This reflects a shift in NBP policy. The central bank should not only considerably hike interest rates (more than priced in currently), conversion of external funding will now commence via the market. This will become a key factor supporting the zloty when Poland converts EU money on the market and potentially, access to the Recovery Fund will be partially resolved in the second quarter of the year.

Domestic debt and rates: We see scope for a further rise in Polish government bond (POLGBs) yields, particularly on the short end. A fiscal boost in 2022 and 2023 suggests that monetary easing next year, still priced by the market, is unlikely. Moreover, fiscal pledges from the government suggest elevated borrowing needs in the coming months. However, it is yet unclear how much of those will be financed via agency debt (PFR, or BGK) and how significant potential NBP bond purchases will be.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom

this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.