# Rates in Poland unchanged, marginally tightened MPC tone

The Monetary Policy Council press release had a marginal tightening in its tone, similar to the governor's last interview. Thursday's press conference should present the National Bank of Poland's unwillingness to act now, but could open the door to limited moves in the upcoming months


Despite the highest inflation in 20 years (5.4% year-on-year in August), there is still no majority in the MPC to pass a rate hike in Poland. In June and July only Eugeniusz Gatnar, Łukasz Hardt and Kamil Zubelewicz voted for such a move. The majority in the Council once again left rates unchanged.

The decision is not a surprise. Governor Adam Glapiński reiterated on Monday that the key triggers to hikes are the following: (1) the future economic situation and the impact of the fourth Covid-19 wave in 2H21, (2) the labour market including wage growth and potential intensification of demand pressure when the current strong rebound fades and (3) the risk of CPI remaining permanently above the target in the future. In our view, it is not until the November NBP projection update that these criteria will be verified.

The Council noted that the rising number of the Delta infections and supply-side constraints had contributed to the deterioration in economic sentiment, although GDP growth in 2Q21 was strong in major economies. The statement also pointed to the recent strong rise in food and industrial commodity prices in the global economy and the lack of reaction to it by the world's major central banks.

The claim about the transitory nature of the factors driving global inflation is no longer present, although in the case of Poland some of the transitory factors are still recognized by the Council and part of them (not all as suggested by the July statement) are expected to expire next year.

The MPC says that the elevated inflation in Poland is temporary, while in July it said that it would temporarily exceed the inflation target. Do the MPC members doubt that it would be possible to keep inflation in Poland within the target, even in its upper range? Already on Monday, Governor Glapiński stressed that he would not allow the elevated inflation to persist. He also admitted that he sees some demand pressure and its risk in 2022 and does not exclude the possibility of rate hikes based on the projections. These are the subsequent small steps toward normalisation of monetary policy.

We expect the next wave of Covid-19 to confirm the declining impact of the pandemic on the economy. In our view, the November update of the NBP projection should show a higher inflation path than in July driven by a higher starting point (both for headline and core inflation), and the latest gas price increase. As a reminder, the July projection already showed that by the end of 2023 inflation in Poland would reach 3.5%, the upper limit of the acceptable deviation range. Since then, the price pressure has intensified (we expect core inflation in 3Q21 to be c.0.3 percentage points higher than projected by the NBP).

The November projection update has been recently pointed out by the dovish wing of the Council (Grażyna Ancyparowicz and Eryk Łon) as important for the normalisation of monetary policy in Poland. Nevertheless, they did not say if they would vote for a rate hike. The vote for a 15bp increase in November was, however, announced by Jerzy Kropiwnicki.

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We maintain our baseline scenario that a rate hike will take place in November. The prolonged wait each month for the announcement after the MPC meeting suggests that the Council is no longer a homogenous body. The beginning of rate hikes at the end of the year would anyway be much delayed relative to the decisions of the central banks in the region.

We are waiting for President Glapiński's press conference on Thursday. It will be the first time since the pandemic started that he will have the opportunity to answer journalists' questions asked live.

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