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Economic Comment

Neither a cycle nor “one and done”

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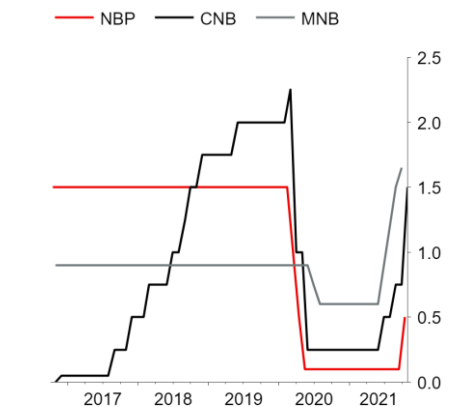
At the press conference the NBP president Adam Glapiński said it was the MPC's intention to surprise the financial market, delivering rate hike sooner and c. 3x bigger than anticipated. Doing so – in his view – the central bank has withdrawn policy accommodation more or less to its pre-pandemic state (although we have no idea what interpretation of the current parameters of monetary policy justifies such statement). Glapiński said the MPC press release deliberately neither signalled likely continuation of rate hikes nor ruled it out – the decisions will be data-dependent. However, by delivering large hike upfront, the central bank “now has the ability to sit and wait, observe the next data”. It seems to suggest that a pause in rate hikes is possible in November, unless the flash CPI for October goes up strongly again (but actually our current estimate is 6.2% y/y, with the upside risk).

It seems clear that the tightening cycle is not over yet – the central bank clearly acknowledged that there are new factors that will push inflation much higher for much longer and even though those factors are still mostly of supply-side nature, the monetary policy must react to prevent spillovers and second round effects in the medium term. But Glapiński stressed also that tightening must be cautious not to hamper economic growth, so we think that from now on the MPC will prefer to move in smaller steps (+25bp), and some pauses are possible between decisions (to watch the data).

We think the baseline scenario is that in November rates go up again, by 25bp (October flash CPI well above 6%, new NBP projection much higher), the next hikes may be in January, March and possibly July, and the main reference rate could end 2022 at 1.50%. But the uncertainty about the precise timeline is high. In case of disappointing data next month, the next rate hike may be postponed.

Asked about the QE program, Glapiński said the programme has dried out “on its own” so there will be no formal suspension and it will remain in the NBP toolkit, just like the FX interventions.

Main interest rates in CEE3



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