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Economic Comment

Steady rate hikes continue

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Polish Monetary Policy Council raised main interest rates by 50bp (the reference rate to 2.75%), as expected. The MPC also raised the reserve requirement rate from 2.0% to 3.5%.

The post-meeting statement is very similar to the previous one(s). The first difference is the recognition of (1) worsening global economic outlook, and at the same time (2) increasing global inflation forecasts. The second one is the addition of the sentence saying that "Zloty appreciation would be consistent with the direction of monetary policy conducted by the NBP". The MPC repeated that decisions in next months will be aimed at bringing inflation back to target in the medium run and will be data dependent. We think the door to further interest rate hikes remain open and the statement does not suggest any departure from the steady pace of 50bp rate hike per meeting. We think the NBP reference rate may go up to 4% by May.

Tomorrow the NBP governor holds the press conference at 15:00 and he may give more colour regarding the policy outlook. We would not be surprised to hear quite hawkish tone, aiming at strengthening the zloty. The problem is that words will be probably not enough to trigger a meaningful PLN appreciation.

The hike in reserve requirement implies a reduction of banking sectors' excess liquidity by c.PLN25bn and could result in lifting the very front end of the money market curve.

Changes versus January statement

The incoming data indicate that after a strong growth in global economic activity in global economy continues to recover, yet 2021, in recent period economic conditions are in some economies have deteriorated. Global economic activity is under a negative impact of supply-side constraints in some markets, high commodity prices and re-escalation of the pandemic in certain countries, including the euro area. Latest forecasts indicate that global GDP growth in 2022 will be lower than in 2021, however, it will remain relatively robust, although lower than in 2021. The spread of a new variant of coronavirus remains supported by an increase in consumption in many countries taking place amid good situation on the labour market and continued recovery in activity after the pandemic crisis. Further epidemic and geopolitical situation, as well as developments in economic policy in the biggest countries remain an uncertainty factor for further course of the global epidemic and economic developments conditions.

Energy commodity prices – in particular prices of natural gas, oil and coal – as well as prices of some agricultural commodities remain markedly higher levels than a year ago. At the same time, global supply chain disruptions continue and international shipping costs are still elevated. Together with a strong recovery in demand, this contributes to a marked rise in inflation globally worldwide, which in many countries has reached highest levels in decades. Moreover, also at the same time inflation forecasts for the coming quarters have been revised up, which points to the risk of longer and indicate that in many economies inflation in 2022 will remain higher than previously judged impact of pandemic shock on inflationary processes central banks' targets.

Amidst strong a marked increase in current and expected inflation many central banks are withdrawing monetary accommodation, however, decisions of monetary authorities are not homogenous and take into account conditions for conducting monetary policy in particular economies. Central banks in the Central-Eastern Europe region have been increasing interest rates. The ECB keeps negative interest rates, but although it announced a reduction in has been reducing the scale of asset purchases. The US Federal Reserve has increased the pace signals a termination of reduction in monthly asset purchases while keeping in March and a start of interest rates close to zero rate increases.

In Poland, despite another wave of increase in infections, economic activity continues to recover, as indicated by monthly data on industrial production, retail sales. According to Statistics Poland preliminary estimate, GDP growth in 2021 amounted to 5.7%, and construction and assembly output in 2021 Q4 there was a significant acceleration in annual GDP growth. The situation in the labour market continues to improve, which is reflected in decreasing unemployment, rising employment and a marked increase in average wages. In the coming quarters economic conditions are situation is expected to remain favourable. However, there are uncertainty factors related to among others the impact of the pandemic on global and domestic economic conditions, as well as to the effects of supply-side constraints and high energy commodity prices on the economy.

Inflation in Poland in November/December 2021 increased to 7.8,6% in annual terms, and in monthly terms it amounted to 4,0,9%. A significant contribution to an increase in inflation in

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2021 was made by the rise in global prices of commodities – including energy and agricultural commodities – observed in the second half of 2021, record high increase in prices of CO2 emission allowances, rising prices of goods whose supply has been constrained by global pandemic disruptions as well as earlier increase in electricity and natural gas prices and introduced in waste disposal charges. Ongoing economic recovery, including an increase in demand driven by rising household income, has also added to an increase in inflation. These factors, together with a rise in regulated tariffs on electricity, natural gas and thermal energy will contribute to inflation remaining at an elevated level also in 2022. In turn, a reduction in some tax rates as part of the so-called Anti-inflationary Shield will have a curbing impact on inflation.

In a longer perspective, inflation will decrease, which will be supported by expected fading of some global shocks currently boosting price growth, as well as by an increase in the NBP interest rates. At the same time, amidst further economic recovery and expected continuation of favourable labour market conditions, as well as probably more lasting impact of external shocks on price dynamics, there persists a risk of inflation running above the NBP inflation target in the monetary policy transmission horizon. In order to reduce this risk, i.e. striving to decrease inflation to the NBP target in the medium term, the Council decided to increase NBP interest rates again. The increase of the NBP interest rates will also curb inflation expectations.

Decisions of the Council in the coming months will continue to be aimed at reducing inflation to a level consistent with the NBP inflation target in the medium term, while taking into account economic conditions, so as to ensure medium-term price stability and at the same time support sustainable economic growth after the global pandemic shock. The Council's assessment regarding the total scale of monetary tightening necessary for achieving these goals will consider incoming information on perspectives for inflation and economic growth, including situation in the labour market. Zloty appreciation would be consistent with the direction of monetary policy conducted by the NBP.

NBP may still intervene in the foreign exchange market and use other instruments envisaged in the Monetary Policy Guidelines. The timing and scale of the measures taken by NBP will depend on the market conditions.

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