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Economic Comment

Quick Hundred

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Polish Monetary Policy Council surprised the market with a 100bp hike (we: 75bp, market: 50bp), bringing the NBP reference rate to 4.50%. This was the largest step taken by the MPC so far in this cycle which now totals +440bp in half a year. Interestingly, the decision was taken much faster than during the previous meetings (14:45CET vs about 16:00CET recently), but this could have been due to reduced line-up of the MPC (2 seats remain vacant).

The post-meeting statement did not change much, future decisions still depend on incoming data and there is no indication that the end of the cycle is nearing. It seems that the MPC wanted to confirm words of NBP Governor Adam Glapiński that they are a cauldron of hawks and thus decided to increase the scale of monetary adjustment after strong rise in inflation in March (to 10.9% y/y) in order to bring CPI down to the target in the medium term and to support the zloty.

It seems that the terminal rate will be higher than we were expecting (5.00%), but we are waiting for tomorrow's press conference of NBP Governor Adam Glapiński for a more precise call. FRA-market is expecting 6.50% at the year-end.

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Changes versus March statment

~~After a strong growth~~ At the beginning of 2022, conditions in the global economy ~~in 2021, at the turn of the year economic~~ remained relatively favourable although the activity ~~has softened somewhat~~growth slowed down in some economies. ~~At the same time, amidst improving epidemic situation in the United States and the euro area in recent period, economic condition indicators have improved in these economies.~~

~~After the outbreak of the~~Prolonged disruptions in international trade and high commodity prices had a negative impact on the global economic situation. Russian military aggression against Ukraine~~,~~ contributed to a substantial rise in uncertainty ~~regarding~~surrounding further ~~course of~~ global macroeconomic ~~situation has increased significantly, including in Europe. This has been reflected in a marked~~developments and led to a significant deterioration ~~of~~in sentiment ~~in financial markets and a depreciation of some currencies. Prices of natural gas, oil and coal, as well as prices of some agricultural~~. At the same time, prices of commodities ~~have increased again. At the same time, global supply chain disruptions continue and international shipping costs are still elevated. This will probably contribute to a further rise in inflation worldwide, which in many countries had reached high levels even before the Russian military aggression against Ukraine~~continued to increase and disruptions in international trade intensified. Consequently, GDP growth forecasts for some economies have been revised downwards.

Many economies continued to see a surge in inflation, which reached the highest levels in decades. High commodity prices as well as prolonged disruptions in global supply chains and international transport remain the main source of price growth. In some economies, rising prices are also driven by growing labour costs. As a consequence, core inflation is also increasing. Due to the economic effects of Russian aggression, inflation forecasts for the coming quarters have been significantly revised upwards.

Amidst a ~~marked~~strong increase in inflation, many central banks are withdrawing monetary accommodation. ~~Central banks in~~In March, the ~~Central-Eastern Europe region have been increasing~~ US Federal Reserve concluded net asset purchases and increased interest rates for the first time in 3 years. The ECB keeps negative interest rates, although it has been reducing the scale of asset purchases. ~~The US Federal Reserve signals a termination of asset purchases in March and a start of interest rate increases~~At the same time, central banks in the Central-Eastern Europe region continue to increase interest rates.

~~Available data indicate that economic conditions in Poland remain favourable.~~Following the strong GDP growth in ~~Q4~~ 2021 ~~stood at 7.3% according to preliminary estimate by Statistics Poland. Data~~Q4, available data point to continuing high economic activity growth in 2022 Q1, as indicated by data on retail sales, industrial production and construction and assembly output ~~in January point to economic conditions remaining favourable also at the beginning of 2022~~. Meanwhile, employment continues to increase accompanied by a marked rise in wages. The Russian military aggression against Ukraine ~~and related~~has contributed to weakening sentiment of economic ~~sanctions~~entities and constitute a significant uncertainty factor for future economic activity in the world and in Poland. Nevertheless, due to, among other factors, modest share of exports to Russia and Ukraine in Polish foreign sales, a continuation of favourable domestic economic conditions may be expected in the coming quarters.

Inflation in Poland – according to Statistics Poland flash estimate – increased in ~~January 2022 to 9.2%. Significant~~March 2022 to 10.9% which was mainly driven by a strong growth in the prices of fuels and other energy carriers, amid Russian military aggression against Ukraine. Earlier significant rise in energy and agricultural commodity prices and increases in regulated tariffs on electricity, natural gas and thermal energy have ~~been the main factors behind~~continued to contribute to markedly elevated inflation. At the same time, the ongoing economic recovery, including an increase in demand driven by rising household incomes, has had also a positive contribution to ~~inflation.~~the price growth. In turn, a curbing impact on inflation has been exerted by a reduction in some tax rates as part of the ~~so-called~~ Anti-inflationary Shield. In 2022, inflation will remain markedly elevated, which – apart from factors previously amplifying inflation ~~so far~~ – will be due to the economic consequences of the Russian ~~invasion of~~aggression against Ukraine. In the coming years, together with fading of the impact of shocks currently boosting prices, inflation will decrease. The decrease in inflation should also be supported by appreciation of zloty exchange rate, ~~since~~which, in the Council's assessment, ~~the recently observed market pressure on zloty depreciation is not in line~~will be consistent with the fundamentals of the Polish economy.

~~The Council became acquainted with the results of the March projection of inflation and GDP based on the NECMOD model. In line with the projection prepared under the assumption of unchanged NBP interest rates and taking into account data available until 7 March 2022, there is a 50-percent probability that the annual price growth will be in the range of 9.3–12.2% in 2022 (against 5.1–6.5% in the November 2021 projection), 7.0-11.0% in 2023 (compared to 2.7-4.6%) and 2.8–5.7% in 2024. At the same time, the annual GDP growth – according to this projection – will be with a 50-percent probability in the range of 3.4–5.3% in 2022 (against 3.8–5.9% in the November 2021 projection), 1.9-4.1% in 2023 (compared to 3.8-6.1%) and 1.4–4.0% in 2024.~~

The Council assessed, that 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.

Further decisions of the Council will depend on incoming information regarding perspectives for inflation and economic activity, including the impact of the Russian military aggression against Ukraine on the Polish economy.

NBP will take all necessary actions in order to ensure macroeconomic and financial stability, including above all to reduce the risk of inflation remaining elevated.

NBP may intervene in the foreign exchange market, in particular to limit fluctuations of the zloty exchange rate that are inconsistent with the direction of monetary policy.

~~The Council adopted the Inflation Report – March 2022.~~

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