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Economic Comment

MPC still in hawkish mode

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NBP president Adam Glapiński again hit the very hawkish tone at the press conference. He emphasised the central bank's determination in curbing inflation and his belief that Polish economy has strong fundamentals and is extremely resilient to shocks, which implies that the decisive monetary tightening is unlikely to harm economic outlook too much.

Glapiński pointed to three factors that convinced the MPC to hike rates by 100bp in March: 1) inflation persistence, 2) war in Ukraine, 3) unavoidable fiscal policy easing. He stressed that the 100bp rate hike was not a frontloading and does not imply sooner end of the cycle. He refused to point to any target interest level, saying that the next MPC decisions will be data-dependent. Yet, the comments signalled strong determination to remove inflation from double-digit zone. Current level of interest rate 4.5% "is not high at all" according to Glapiński. He said that at some point in future the central bank may face the dilemma if economic growth falters and inflation decreases, but "we are still far away" from this moment. He also added that it cannot be ruled out that interest rates may start going down by the end of 2023.

We have no doubts that this is still not the end of monetary tightening cycle yet. However, a repeat of the 100bp rate hike would require another big surprise from inflation, which we do not anticipate at the moment. NBP head predicted inflation to rise further in the coming months, with the peak most likely in June. Our current CPI forecast assumes inflation hovering near 11% until July-August. We think that – unless CPI jumps strongly again – the most likely scenario is another 50bp rate hike in May and then one or two more similar moves in the next months. By the middle of the year, the economic activity data will not look as rosy as today, so the NBP's optimism about the economy's resilience to the shock may fade, together with their willingness to tighten policy further. Financial market started pricing-in the next rate hikes even more aggressively, with FRA1x4 at 6.23%, i.e. 97bp above today's WIBOR, and FRA6x9 at 6.8%. We think the central bank will neither move as quickly nor as high.

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