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# Economic Comment

## Rates up in line with expectations

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The Monetary Policy Council raised interest rates by 75 basis points, as expected. The reference rate currently stands at 6.00%. The zloty weakened slightly after the decision and the interest rate market did not react.

The key paragraphs in the MPC's official communiqué have not changed for months and thus the document does not add much in terms of assessing the monetary policy outlook. It certainly does not suggest that the Council is changing its stance or nearing the end of the hike cycle. We will probably learn more at tomorrow's NBP President's conference at 15:00 CET.

It seems that the changes in annual CPI inflation rate are key for the Council at the moment. We thought that the rise of inflation to 13.9% y/y in May from 12.4% y/y in April was consistent with a 75 bps move, and the MPC felt the same, apparently. In our view, inflation will rise again in June and exceed 15% y/y, and the Council will respond with a 50 or 75 point hike in July. In the following months, we expect CPI to stabilise and even fall slightly, which may prompt the MPC to hold off on further increases. However, another move cannot be ruled out after the August break (there is no meeting this month) if the MPC would like to see inflation stabilise at least for a few months. The FRA market is pricing a rate hike to around 7.75% by year-end.

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### Changes versus the May statement

~~In 2022 Q1, conditions in the~~ Incoming data indicate a gradual slowdown in global ~~economy remained~~growth. In recent months economic conditions deteriorated markedly in some emerging market economies, including in China, amid still relatively favourable ~~although the~~ economic conditions in the biggest advanced economies. Global activity ~~growth slowed down in some economies. Prolonged disruptions in international trade and high commodity prices had a~~ is under the negative impact ~~on~~ of high prices of commodities and of production components, persisting disruptions in the ~~global economic situation. Russian~~functioning of global supply chains and the repercussions of Russia's military aggression against Ukraine ~~contributed~~.

Global inflation continues to ~~an intensification of these factors and to a substantial~~ rise ~~in uncertainty surrounding further global macroeconomic developments as well as led to a deterioration in economic sentiment. Consequently,~~, reaching in ~~the recent months GDP growth forecasts for some~~many economies ~~have been revised downwards.~~

~~Many economies continue 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 growing inflation. In some economies, rising prices are also driven by growing labour costs. As a consequence, core inflation is also increasing.~~ At the same time, inflation forecasts for the coming quarters are being significantly revised upwards. The main source of growing inflation continue to be high commodity prices as well as prolonged disruptions in global supply chains and international transport, amplified by the effects of war. In some economies, rising prices are also driven by high demand growth and increasing labour costs. As a consequence, core inflation is also increasing.

Amidst a strong increase in inflation, many central banks are tightening their monetary policy. The US Federal Reserve concluded net asset purchases and increases interest rates. The ECB keeps negative interest rates, although it has been reducing the scale of asset purchases. ~~At the same time, central~~Central banks in many economies, including in the Central-Eastern Europe region, continue to increase interest rates.

~~Following the strong~~In Poland, GDP growth in ~~2021 Q4, available~~2022 Q1– according to Statistics Poland preliminary estimate – stood at 8.5% y/y, with a significant contribution of change in inventories, while both consumption and investment growth declined. Available data point to continuing ~~high~~favourable economic conditions in 2022 Q2, however, economic activity growth ~~in 2022 Q1. In March, despite the weakening in sentiment of economic entities due to the Russian military aggression against Ukraine, the growth of retail sales, industrial production as well as construction and assembly output remained high.~~will decelerate. Meanwhile, employment continues to increase accompanied by a further fall in unemployment and a marked rise in wages. A continuation of relatively favourable economic conditions may be expected in the coming quarters, although a ~~gradual~~further slowdown of economic growth is forecast, while both the domestic and global outlook is subject to significant uncertainty ~~stemming from the impact of Russian military aggression against Ukraine.~~ .

Inflation in Poland – according to Statistics Poland flash estimate – increased in ~~April~~May 2022 to ~~12.3% which was~~13.9% y/y. Elevated inflation results mainly ~~driven by~~from a strong ~~growth in the food prices due to a~~ rise in global energy and agricultural commodity prices ~~amid~~– driven, to a large extent, by the repercussions of Russian military aggression against Ukraine~~. High global energy commodity prices as well as~~ – and earlier increases in regulated tariffs on electricity, natural gas and thermal energy ~~have continued to contribute to markedly elevated inflation.~~. Consequences of disruptions in global supply chains and high shipping costs in international trade also boost inflation. At the same time, ~~the ongoing economic recovery, including an increase in demand driven by~~continued robust demand which enables enterprises to pass rising ~~household incomes,~~ costs on to the final prices has had also a positive contribution to the price growth in Poland. In turn, a curbing impact on inflation has been exerted by a reduction in some tax rates as part of the ~~Anti-inflationary~~Antiinflationary Shield. In the coming quarters, ~~inflation will remain markedly elevated due to a further~~ it is expected that the impact of ~~the~~ factors currently amplifying price growth will persist, including those related to the Russian military aggression against Ukraine. ~~In the coming years~~Meanwhile, the NBP interest rates increases, together with fading of the impact of shocks currently boosting prices~~, inflation~~ will ~~decrease~~contribute to a gradual fall in inflation in the coming years. The decrease in inflation should also be supported by appreciation of zloty exchange rate, which, in the Council's assessment, will be consistent with the fundamentals of the Polish economy.

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.


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