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Economic Comment

Monetary policy to be data-driven

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At today's conference NBP governor Adam Glapiński seemingly hit the very dovish tone, at least at the first sight. He started by saying that monetary policy these days is focused mainly on securing the persistence of economic growth and it is way too early to think about policy normalisation. He stressed that most of economic indicators look solid mainly due to the low base effects, but there is still no huge economic revival, and the uncertainty about the economic outlook and the development of Covid-19 pandemic remains high. In his view, elevated inflation is ENTIRELY due to factors beyond the monetary policy control and ALL economic forecasts point to inflation decline next year. He dismissed suggestions that the MPC's statement signals any change in the rhetoric. He also explained that inflation's deviation from the target could be tolerated if it results from exogenous factors (which he thinks is the case right now).

But at the same time, Glapiński said very clearly that if the economic rebound proves strong and lasting and inflation forecasts move above the target for longer, due to demand-side factors and labour market pressures, the central bank will not hesitate to start tightening monetary policy. It is too early for such move right now, he thinks, and the central bank has to wait for more data and next economic forecasts (July's NBP projections will be the first important checkpoint). NBP governor downplayed the idea of "signalling" small interest rate hike, but rather said that once the conditions are met the policy tightening process should start. It should be noted that this time there was no mention whatsoever that interest rates may remain stable "for long" or "until the end of the MPC's term of office". The message was in fact that the monetary policy in the coming months will be data-driven. We read it as a continuation of "undercover" change of the rhetoric, despite the official denial (which started in May), and a preparation of ground for monetary policy normalisation if economic scenario in the coming quarters indeed appears to be very optimistic. Simply the NBP needs some time to change course, probably partly in an effort to "save face" by avoiding too quick turnaround in the communication.

Another important declaration from NBP governor was that the QE auctions will need to be suspended if the rates go up. However, no decisions about the tapering has been made yet, according to Glapiński.

Summing up: despite the official denial that the rhetoric is changing, we think the NBP is readying ground for possible start of monetary policy normalisation. If strong economic revival continues and inflation remains elevated (which is our base case), the first rate hike before the year-end is not ruled out, in our view, most likely in November.

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