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# Economic Comment

## Inflation is the only NBP's worry

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The NBP president Adam Glapiński presented a very bullish message at the press conference today. He explicitly described himself and the entire (new) MPC as “very hawkish” and emphasised that their main objective is to curb inflation and prevent its persistence.

In his view, elevated inflation is THE ONLY real worry right now. Glapiński was very upbeat on the GDP growth outlook, saying that it may slow from c.7% at the start of the year to c.4% at the end but no more. He stressed that the labour market is super strong, consumption and investments keep growing quickly, there is virtually no unemployment in Poland. In his view Polish economy is very stable and “balanced” (quite surprising statement given the record-high inflation and current account gap), there are absolutely no “crisis” tendencies, some economic slowdown may be expected but only a cyclical one. There is “absolutely” no risk of recession or even stagflation (they are “cosmic distance” away).

We think that all those comments confirm that Glapiński's view on the economy is extremely “backward-looking”. It is true that the GDP growth was still very high at the very start of the year – January and February still saw very strong economic activity and GDP is likely to grow above 6% y/y in 1Q22. But the military conflict in Ukraine and the resulting turmoil in energy markets are likely to cause a quite significant disruption in the trend, so a slight GDP drop (q/q, s.a. terms) in the second quarter is quite possible. If the conflict extends into 3Q, a technical recession is something not difficult to imagine. So, even if the average GDP growth in 2022 is indeed unlikely to drop to or below zero, the outlook does not seem to be as rosy as the NBP governors' comments would suggest. Definitely, the degree of uncertainty is so high at the moment that one should avoid such definite statements (which remind of the comments made at the outset of pandemic that the recession in Poland is absolutely ruled out).

NBP president was emphasising at the conference that fighting inflation is now the central bank's top priority and they will try to contain it by all possible means. He said it is very likely that interest rate hikes will continue in the coming months, the target level for the reference rate is hard to indicate precisely but it will be probably higher than 4.0%-4.5% indicated earlier. Glapiński thinks that the MPC should act “quickly and decisively”.

The NBP sees the zloty as strongly undervalued currently and expects it to appreciate due to strong economic fundamentals. Asked about FX interventions Glapiński said they were not effective and that's why the central bank resigned from boosting their size. Still, further interventions cannot be ruled out.

Summing up: the extremely bullish message from the NBP governor regarding the economic growth and a clear emphasis on fighting inflation (possibly aimed at building credibility for the newly elected Monetary Policy Council) suggest that more decisive rate hikes will follow. We expect two more interest rate hikes by 75bp in April and in May. Whether the MPC stops at 5.0% will depend on the developments in Ukraine, trends in commodity and FX markets. Currently we think it is a baseline scenario, as in couple of months it will be already visible that the war in Ukraine has a toll on economic activity also in Poland. Eventually, at the end of 2023 the central bank may start monetary easing cycle, responding to the looming economic slowdown.

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