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Economic Comment

More inflation = more rate hikes

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NBP president Adam Glapiński started the press conference of a hawkish note, saying that the MPC will keep hiking interest rates until they are convinced that inflation will decline persistently. Yet, he immediately added that in a not-so-distant future (he hopes it will be late 2023) the time for rate cuts will come. Interestingly, he did not stress the need to see the return of the predicted inflation to the target before the cycle stops, but only the necessity to see lower inflation.

Then, Glapiński engaged in a lengthy defense of the NBP's policymaking in the recent quarters, ensuring that the MPC was not late with interest rate hikes and that everything they did was perfectly timed. NBP president stressed that the central bank does not want to "overdo" monetary tightening, as they want to avoid damaging economic growth and causing unemployment.

Glapiński emphasized that the MPC does not know what will be the peak rates level in the cycle, as it will depend on inflation – when inflation stops rising, they will stop hiking, which may be even in a month or two. He also said the +75bp move (after +100bp in April) does not signal that the cycle is nearing to its end. It will end when CPI stops climbing. MPC still expects CPI peak in June-July.

Overall, Glapiński's comments confirmed that the next MPC decisions will be data-driven. As long as inflation is on the rise, monetary tightening will continue. If we are right that CPI will peak in June near 14%, then we could be also right about next interest rate decisions: +75bp in June, +50bp in July and the reference rate will peak at 6.5%. There is no decision-making meeting in August, and after summer holidays the deterioration of economic environment will be already clearly visible in the data, while inflation will be descending.

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