

# NBP January Meeting Preview: Another rate hike in the pipeline

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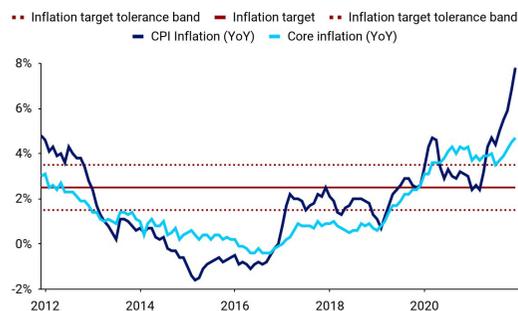
3<sup>rd</sup> January 2022

# Another rate hike in the pipeline

This Tuesday the Monetary Policy Council of the National Bank of Poland will decide on interest rates. The January meeting will be at the centre of attention in Eastern Europe at the beginning of 2022 and may impact the zloty.

The meeting was rescheduled to the 4th of January from the 12th shortly before Christmas. This does not necessarily have to carry meaning but it's worth noting that because of that the MPC will not have the inflation figures for December, as the initial estimate will be published later this week, on Friday. The decision will, therefore, take place in an environment of additional uncertainty. Inflation is widely expected to have increased further into year-end and has surprised significantly to the upside in recent months, coming in at an upwardly revised 7.8% in November and far above the bank's inflation target ( $2.5\% \pm 1\text{p.p.}$ ). The less volatile measure of core inflation, which is particularly important for the NBP as it excludes food and energy prices and therefore better reflects changes in domestic demand, also increased to 4.7%.

Figure 1: Poland Inflation Rate (2011 - 2021)

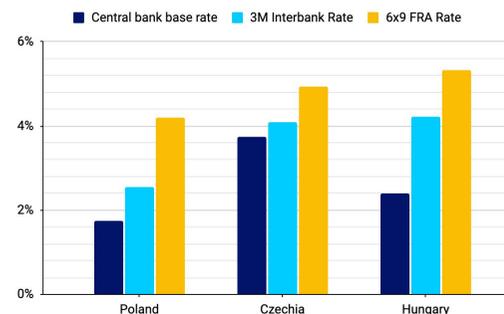


Source: Bloomberg Date: 03/01/2022

NBP's own inflation projection from November pointed to inflation of 5.8% in 2022 but considering a number of sudden shifts (particularly rise in energy prices and the recent decision of Poland's market regulator, URE, to significantly increase energy and gas prices for households) those projections have become stale. In a recent interview with Business Insider, NBP's president Adam Glapiński shared the bank's current views stating that average price growth in 2022 will equal 7.6%, inflation will reach its peak in June (8.3%), and then decline to 6.2% in December.

NBP's base rate at 1.75% has been increased three times from an all time low of 0.1% and already stands above its pre-pandemic level but is still rather low compared to its main regional peers (Figure 2). There are certain differences between the countries economic situation, internal price pressures, risks to inflation and growth, exchange rate situation, and the situation in the housing sector with Poland appearing to be less pressured to tighten than most peers. That being said, we believe that the country is likely to follow the example of Czechia and Hungary with continuing hikes, but be less aggressive than they were in the past few weeks. Interbank market rates have moved up quite substantially, as have the forward rates, indicating that the market is expecting NBP's tightening process to continue in the first half of 2022.

Figure 2: Base rates, 3-month interbank rates, and 6x9 FRA rates in Poland, Czechia, and Hungary\* (as of 31/12/2021)



Source: Bloomberg Date: 03/01/2022

\*6x9 FRA rates refer to the expected 3-month interbank rate in 6 months; in Hungary's case the reference rate has ceased to be the key monetary policy instrument in recent weeks: 1-week deposit rate set weekly has become a primary tool. It now stands at 4%.



Virtually all market watchers foresee an interest rate hike on Tuesday. We expect the MPC to raise the base rate by 50 basis points, to 2.25%, in line with the consensus. Looking at forward and interbank rates we assume that at least 50 bp. are priced in. A hike of lower magnitude would likely translate into a short-term weakness of the currency, while a hike of 75 bp. could strengthen the zloty in the immediate term. Regardless, we expect policy tightening to support the currency in 2022. It's worth adding, that in line with our expectations and contrary to last year, NBP refrained from intervening in the market to weaken the zloty in late-2021. This further affirms the view that decisionmakers will prefer a stronger currency in 2022.

Another hike, in February, is also likely, its scale will depend on incoming information, which there will be a lot of in January. Economic data that we have received last month have been quite impressive, with retail sales, industrial production, employment, and wage growth surprising to the upside in November. This further confirms the need for policy tightening, suggesting that additional price pressures may form and adding to the argument that the economy should withstand higher rates rather well.

There are a lot of uncertainties heading into 2022, with the pandemic developments being one of the more important. That being said, with regards to Poland it appears to be more of an upside risk to inflation than downside risk to growth, therefore it should not slow policy tightening, in our view.

*The decision of the MPC will be announced on Tuesday. President Glapiński's press conference will follow on Wednesday at 15:00 CET.*

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