

Poland Economics Flash

NBP remains invariably dovish

- The Monetary Policy Council (MPC) left all interest rates unchanged, with the key policy rate still at 0.1%. As we had [expected](#), there was also no significant hawkish twist in the communique.
- The official policy statement included a whole new section signalling that according to NBP's monetary policy guidelines the inflation rate may for some time deviate from the central bank's target (2.5%) as well from the tolerance band around the target (+/-1 pp). The MPC emphasized that *"the response of monetary policy to the shocks is flexible and depends on their causes and the assessment of persistence of their effects"*. In our view this was a way to signal that the MPC treats inflation as only a temporary phenomenon and does not see any need to change rates at this stage.
- The MPC added also a sentence saying that *"the NBP's monetary policy (...) stabilizes inflation at the level consistent with the NBP's target"*. A similar section was deleted from the communique last month, which at that time was interpreted by some market participants as a hawkish twist in the communique. The fact the phrase was reinserted into the official statement seems to be a signal that the policymakers have no intention of turning significantly more hawkish.
- We stick to our view which assumes that instead of starting a rate hike cycle early (the option that the CNB and the NBH are considering), the Polish MPC prefers a more gradual approach. We expect only a gradual change in the rhetoric in the coming months, facilitated by the July inflation projection (most likely showing higher CPI and GDP in 2021 and 2022). We expect also tapering of asset purchases in the coming months. This would allow the central bank to postpone the first rate hike, possibly until 1H22.
- That strategy may require from the MPC additional communication efforts to convince market participants about its determination to control inflation . A less controversial strategy would be to start rate hikes early but proceed at a slow pace. However, for now this does not seem to be the MPC's preferred strategy.
- In the near term the dovish stance of the MPC is likely to be supportive for the front end of the swap curve but this may be accompanied by a risk of significant jump in longer yields in the future. Both monetary and fiscal policies are highly accommodative in a period of very strong economic rebound. In our view, without policy adjustment the inflation rate and inflation expectations may continue to rise, eventually leading to a need to significantly faster rate hikes than currently priced in by the market.

Piotr Kalisz, CFA

+48-22-692-9633

piotr.kalisz@citi.com

Cezary Chrapek

+48-22-692-9421

cezary.chrapek@citi.com

Economics Research

Piotr Kalisz, CFA

Chief Economist

+48 (22) 692-9633

piotr.kalisz@citi.com

Cezary Chrapek, CFA

Economist

+48 (22) 692-9421

cezary.chrapek@citi.com

Citi Handlowy

Senatorska 16

00-923 Warszawa

Polska

Fax: +48 22-657-76-80

This material was prepared by the employees of Bank Handlowy w Warszawie S.A. Any data, information, comments, hypotheses have been developed for information purposes only and constitute neither an offer nor enticement to execute any transactions with the Bank.

This document has been issued for information purposes only and is not an offer in the meaning of Article 66 of the Civil Code. The terms and conditions presented in this document constitute a basis for negotiations only and may be amended. Binding terms and conditions shall be presented in the final draft agreement concerning a transaction and/or in a confirmation of transaction. They do not constitute any investment or financial analysis either, or any other recommendation of a general nature concerning transactions in financial instruments referred to in Article 69 clause 4 sub-clause 6 of the Act on Trading in Financial Instruments of 29 July 2005, or any 'information recommending or suggesting an investment strategy', or any 'investment recommendation' in the meaning of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse. This material is not an investment research or a marketing communication within the meaning of article 36 of the Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organizational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

All presented information is based on sources commonly regarded as reliable. The Bank made its best efforts to prepare the presented information adequately, completely and duly, however the Bank does not guarantee the adequacy or completeness of the material, especially in case any information this document is based on is considered incomplete. Any terms and conditions presented in this document are only for discussion and may change. All hypotheses contained in this document constitute an assessment for the date of publication and may be subject to change without notice.

It is exclusively Client responsibility to make the final decision whether or not to enter into a transaction and for the final result of investment decision taken based on information contained in this material.

The information contained in this publication which refers to past listings or performance of investments in a given instrument, financial index or indicator does not constitute a guarantee that the listings or performance of investments in the same instrument, index or indicator will follow the same or even a comparable trend in the future.

All the hypotheses presented are based on certain hypothetical assumptions, in particular in relation to future events or market conditions. As such assumptions adopted may fail to materialize, actual quotations and results associated with investments in the financial instruments, indices or ratios presented, may divert considerably from the values presented.

The Bank or any other subsidiary of Citigroup Inc. may occur to be an issuer or creator for identical or similar to those described in this document financial instruments. The Bank (or any other subsidiary of Citigroup Inc., or its directors, officers or employees) may be involved or may make an investment in buying or selling the financial instruments described in this document. The Bank may conclude transactions which are opposite to transactions concluded by the Client and which may or may not affect negatively the market price of a financial instrument, interest rate, index, foreign exchange rate or any other underlying market parameter (hedging). The Bank has developed policies and measures for conflict of interest management.

The Bank does not act as an advisor or a broker in financial instruments described in this market comments. The Bank certifies that the information contained in the presented document accurately reflect his own hypotheses and that it has not received any remuneration from issuers or creators of instruments, either directly or indirectly.

The Bank has not developed this market commentary based on the individual situation of the customer and not evaluated its adequacy for a Client with regard to any financial instrument described in this market comments, even if the Bank was in a possession of information as to the adequacy of certain financial instruments, investment strategy, etc. The Bank reserves the right to discontinue the distribution of market comments to selected or all customers.

Copying and distributing this document, in part or in whole, is only authorized upon the prior written consent of the Bank, except where the disclosure of this document is mandatory in legal or administrative proceedings.

Bank Handlowy w Warszawie S.A. is supervised by the Polish Financial Supervision Authority (KNF).

Citi and Citi Handlowy are registered trademarks of Citigroup Inc., used under the license. Citigroup Inc. and its subsidiaries shall also hold the rights to certain trademarks used herein. Bank Handlowy w Warszawie S.A. with its registered office in Warsaw, at ul. Senatorska 16, 00-923 Warsaw, entered in the Register of Entrepreneurs of the National Court Register maintained by the District Court for the Capital City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, KRS 000 000 1538, Tax Identification Number NIP 526-030-02-91, with fully paid-up share capital amounting to PLN 522,638,400.