Macro Flash

Economic Research

Bank Polski

6 October 2021

We have a hike, at last!

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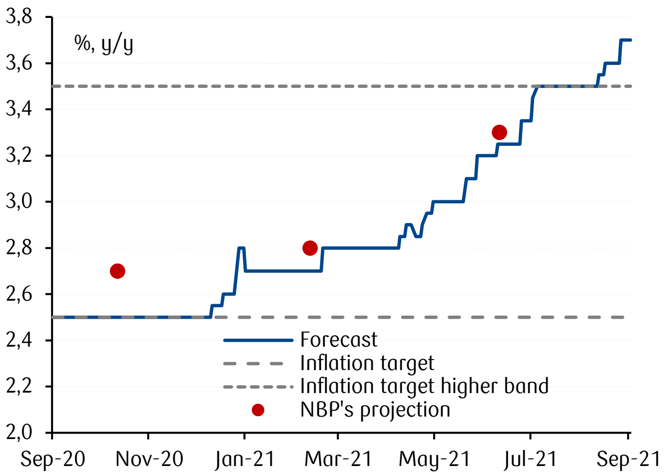
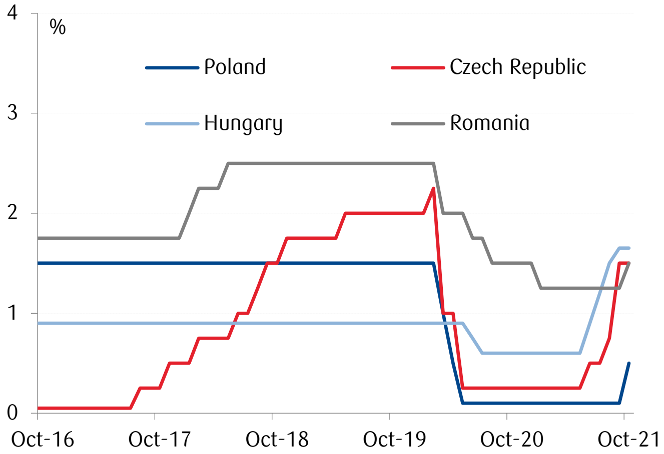
- **The MPC surprised the market today and decided to increase interest rates. The reference rate rose by 40bp, to 0.50%.** The rediscount rate, discount rate and lombard rate rose by 50bp (in the case of lombard rate to 1.00%). The uneven scale of hikes shows, that the MPC aims to return to the prepandemic structure of interest rates (with 100bp difference between the reference and lombard rate and between the deposit and reference rate). Moreover, the Council decided to increase the required reserve ratio from 0.50% to 2.00%.
- **In the aftermeeting statement the MPC underlined, that *"amidst probable further economic recovery and favourable labour market conditions, inflation may remain elevated longer than hitherto expected"*.** The MPC also noticed, that the rise in global prices of both energy and agricultural commodities observed in recent months may still increase price growth in the coming quarters. The Council maintained its earlier assessment, that inflation, to great extent, resulted from factors beyond the control of domestic monetary policy, and that some supply-side factors currently increasing inflation will fade next year. At the same time, however, it was added that the ongoing economic recovery, including rising household income, has added to the price growth. Thus, **there are also demand factors in the sources of inflation growth recognised by the MPC,** the occurrence of which (acc. to earlier MPC declarations) was one of the preconditions for interest rates increases.
- There is no clear suggestion in the statement as to whether the hike is a one-off signal move (as postulated by some MPC members) or whether it marks a beginning of tightening cycle. A higher than expected move (by 40bp, not by 15bp) could suggest the first scenario. On the other hand however, the range of the rate hike postulated at the previous MPC meeting (reference rate at 2.00%) and the scale of inflation surge (5.8% y/y in September according to the flash estimate) indicate there is a space for more hikes to come.
- We hope to get more answers to that question at the **press conference of the NBP Governor, scheduled for tomorrow (3 pm CET).** At the same time we belive, that a lot will also depend from the November inflation projection, which will already include the impact of today's hike.
- As the MPC decision surprised the market in its timing (the first hike was expected in November at the earliest) and its size (40bp vs 15bs), the market reaction was strong (EURPLN at 4.55). Although a 40bp hike does not significantly change our (high) inflation forecast, the hike reduces the risk of deepening capital disallocation, overheating housing market and de-anchoring of inflation expectations.

CPI forecasts for 2022*



Key interest rates in the region



Source: Macrobond, Bloomberg, NBP, PKO Bank Polski. *Bloomberg consensus.