

8 March 2022

In defence of the zloty

- **The MPC raised interest rates by 75bps**, the reference rate to the highest level since March 2013 (3.50%). In total, the reference rate has already increased by 340bps from October 2021 - the largest scale of a cycle since 1999/2000. Other NBP interest rates rose symmetrically, also by 75bps (including lombard rate up to 4.00%).
- **The recent pressure on the PLN brought about an increase in expectations as to the scale of the rate hike**, hence the stronger move than at previous meetings (75bps vs 50bps) is not a surprise. On the contrary, the market reaction (strong PLN appreciation before the decision and an upward move in EURPLN by 5 figures afterwards) may indicate that the market, just like us (PKOe: 100bps), expected a bigger move. These expectations were strengthened by the earlier decision of the MNB, which raised the equivalent of the NBP lombard rate by 100bp today (to 6.4%).
- **The post-meeting [statement](#), including the key results of the new NBP projections for GDP and CPI, indicates that today's rate hike is not the last one.** The CPI inflation has been revised sharply upwards, to 10.8% in 2022 (from 5.8%) and 9.0% in 2023 (from 3.7%), and in 2024 the mid inflation forecast is 4.3%. Forecasts of GDP growth have been revised downwards, but here the scale of the move is smaller. In 2022, GDP is to increase by 4.4% (down from 4.9%), and in 2023 by 3.0% (previously 5.0%). The NBP emphasized the significant increase in uncertainty as to the future economic activity caused by the war in Ukraine, but underlined that due to the minor importance of Russia and Ukraine as export markets for Poland, the favorable economic situation in the country should continue. This sentence, combined with a radical upward revision of inflation projection and an indication that the war will strengthen inflationary pressure, means in our opinion that the MPC is now more concerned with the intensification of unfavorable price developments than with a sharp economic downturn. This, in turn, heralds further interest rate hikes.
- **The situation on the FX market may be an additional motivation to continue the tightening cycle.** The statement says that the ongoing pressure on zloty depreciation has no justification in the economic fundamentals of Poland. The sentence referring to currency interventions was also strengthened - the NBP declared that it would take all necessary measures to ensure macroeconomic and financial stability and to limit the fluctuations of the zloty exchange rate that are inconsistent with the direction of monetary policy.
- **As usual, the presser of NBP Governor (tomorrow, at 3pm CET) will be an extension of the post-meeting statement.** We expect that the NBP's baseline scenario of further rate hikes (to at least 4%) will be confirmed.

Macro Research Team
analizy.makro@pkobp.pl

[@PKO_Research](#)

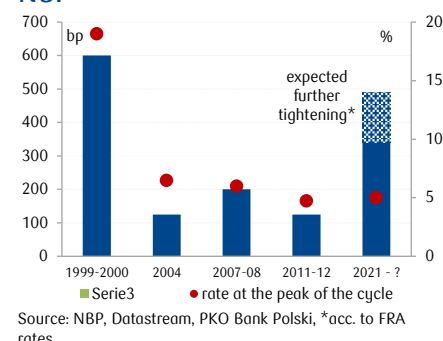
Marta Petka-Zagajewska

Head of Macro Research
marta.petka-zagajewska@pkobp.pl
tel. +48 22 521 67 97

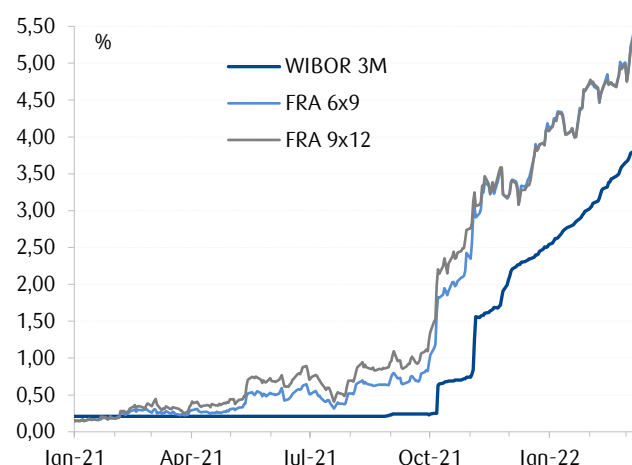
Michał Rot

Economist
michal.rot@pkobp.pl
tel. +48 22 580 34 22

The history of tightening cycles by NBP

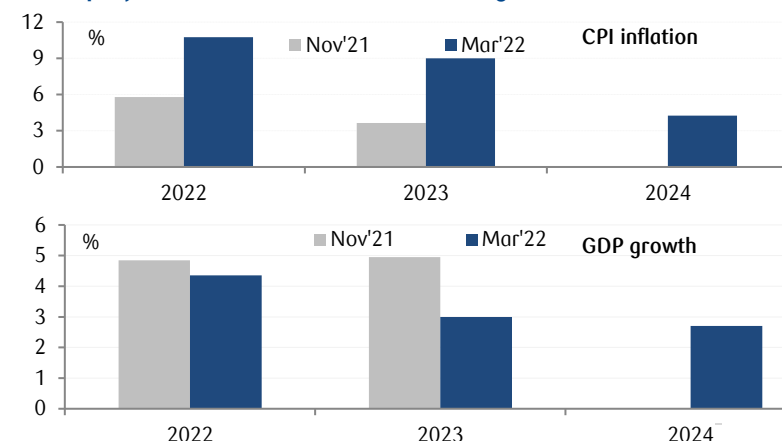


Short-term interest rates



Source: Datastream, NBP, PKO Bank Polski

NBP's projections: CPI inflation and GDP growth



The above information has been prepared for informational purposes only and is provided to PKO BP SA Group clients. It is not an offer (as understood under the Civil Law of 23rd April 1964) to buy or sell or the solicitation of an offer to buy or sell any financial instrument and does not constitute the provision of investment, legal or tax advice. It is also not intended to provide a sufficient basis on which to make an investment decision. The above information has been obtained from or based upon sources believed to be reliable, but PKO BP SA Group does not warrant its completeness or accuracy. PKO Bank Polski Group strongly recommends that clients independently evaluate particular investments and accepts no liability for the financial effect of its clients' investment decisions.

The above information is prepared and/or communicated by Powszechna Kasa Oszczędności Bank Polski S.A., registered in the District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register under KRS number 0000026438, Tax Identification Number (NIP): 525-000-77-38, REGON: 016298263, share capital 1,250,000,000 PLN.