

4Q21 “Consumption boom” in Poland and a hawkish central bank governor

Even though December retail sales fell short of expectations, Poland saw a consumption boom in 4Q21 driven by a low base from 2020 and strong services. With household consumption growth estimated at around 8% year-on-year, GDP jumped up by 7.8% YoY in 4Q and about 5.9% in 2021. Governor Glapinski's recent hawkish turn seems to be not only driven by this



A shopping mall in Warsaw, Poland

Solid retail sales in December, but weaker than expected

Retail sales went up by 8.0% YoY in December, after expanding by 12.1% YoY in the previous month. Sales of goods slowed a bit before end of the year, ie, (1) car sales nose-dived further amid limited availability (supply bottlenecks), (2) gasoline sales increase was less robust than in November in annual terms, most likely due to less traffic during the holiday period as the fourth wave of Covid-19 emerged and (3) buoyant growth of textiles, clothing and footwear was still reported (31.1% YoY), albeit at a slower annual pace than in November, when it soared 55.8% YoY.

In December 2021, retail sales moved away from the pre-pandemic trend yet again and was merely 4% higher than in February 2020. At the same time upward pressure on goods prices

continues. The implied deflator of retail sales was running around 8% YoY for the second month in a row in December.

Even with retail sales losing momentum in December, the overall 4Q21 data showed a consumption boom. Sales of goods jumped up by around 9% YoY in the last three months of 2021. At the same time our internal data suggest a robust increase in sales of services towards the end of 2021. The robust dynamics of consumption despite the acceleration of prices is caused by low base from 2020, when strict lockdown measures were imposed in November and a voluntary decrease of clients mobility was also visible.

As a result, we estimate that household consumption growth was around 8% YoY in 4Q21 vs 4.7% YoY in 3Q21. That translates into GDP growth of 7.8% YoY in the last quarter of 2021. It also implies 5.9% economic growth in 2021 in Poland.

Governor Glapinski's hawkish turn recently doesn't seem to be caused by consumption boom only

Last week Governor Glapinski said the National Bank of Poland (NBP) can deliver more hikes than the market is pricing in now. Before that comment FRAs priced a terminal NBP rate at 3.9%, and after the comment expectations rose by about 50bp, almost reaching our forecast which assumes that the NBP raises reference rates to 4.5% in 2023 (4.0% at the end of 2022). It is quite difficult to disentangle the governor's reaction function, but we see the following reasons behind Governor Glapinski's hawkish pivot. First, the stronger PLN is the most effective tool in containing inflation in the short term – rate hikes impact inflation with a substantial lag. This hawkish verbal intervention may help PLN stay resilient despite geopolitical risk at the Russian-Ukrainian border. Second, food producers warn that wholesale (unregulated) prices of natural gas and electricity grew 10-15 times more than regulated retail prices and this can trigger a strong jump of CPI nearing 10% in January. Also, the 4Q21 GDP estimates suggest that consumption stayed resilient despite the 2H21 CPI jump, which makes second-round effects even more likely. Overall, a stronger PLN would contain CPI in the short term.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.