

## Polish GDP drops less than expected; inflation declines

Polish 2Q GDP declined by 8.2% YoY, less than the consensus (-9.0%) and far better than the NBP projection would suggest (-10.6%), according to the flash reading. The final CPI reading showed a slowdown to 3.0% YoY, slightly below the flash reading (3.1%)



A couple in Warsaw

### GDP: Not quite as bad as feared

The dismal reading mostly reflects the country lockdown in April, the peak of the first wave of the pandemic. GDP structure is not yet available, but we expect that both consumption and investment growth decline was in double-digits.

Real data available for 2Q (industrial production, retail sales) suggests a somewhat shallower contraction. Most likely this reflects a relatively deep decline in demand for market services (e.g. leisure and hospitality), which is not particularly monitored by the statistical office in monthly data. This reflects anti-Covid-19 measures introduced in April that virtually prevented most such services from operating. Nonetheless, the drop in market services seems far less devastating than the central bank projection had suggested.

In 2Q manufacturing entered a deep contraction as well. While there were no enforced production

halts, companies faced both internal and external collapsing demand. That said, Polish industry fared better than its CEE counterparts due to a more diversified structure, particularly a lower reliance on carmakers.

Net trade most likely had a significantly positive contribution to growth. Collapsing investments and demand for cars likely substantially limited imports. Exports were relatively more resilient due to the mentioned structure of industry. This trend should change in 2021 though, as investments from the Recovery Fund should boost imports.

## CPI: Core inflation on the rise.

The final reading showed CPI slowed to 3.0% YoY from 3.3 a month prior. This reflects mainly lower food prices (3.9% YoY vs 5.8% in June) and energy prices dynamics (4.5% YoY vs 5.1%). Energy prices are a major reason for the CPI revision – the flash numbers assumed the dynamics staying flat. Fuel prices accelerated to -16.1% YoY to -19.3%. Core inflation likely accelerated further to 4.3% YoY from 4.1%.

We expect CPI to remain elevated until 4Q, owing not least to core inflation. The core component is supported by a multitude of factors, such as deferred demand from the lockdown period, or Poles spending the holiday season domestically, boosting prices in tourist regions. Financial services' costs may continue to grow as well.

This is only partially offset by the statistical office returning to normal data collection, rather than assuming for categories unavailable during the lockdown, basing them on past trends. This likely overstated prices of foreign tourist trips, for example.

We expect a deeper contraction in CPI in 4Q. The impact of deferred demand or Poles staying holidaying at home should fade by then. Worsening labour market conditions should have an increasing impact as well.

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