

## Polish GDP dropped significantly in 2Q

The second GDP print confirmed that Polish growth dropped by 8.2% in the second quarter after rising by 2% in 1Q. Overall, we expect growth to decline by 3.5 - 4% in 2020



Construction of a bridge in Gdansk, Poland

The second print confirmed GDP dropped by 8.2% year-on-year in the second quarter, after rising by 2% in the first quarter. The consumption drop was deeper than retail trade suggested, due to the drag from lockdowns on services. Investments declined by less than expected.

As is the case during most crises, GDP growth was supported by net exports, which added 0.8 percentage points, but the outright drop in exports (-14.3% YoY) had significant multiplier effects on other components.

Consumption expenditures declined by -10.9% YoY, i.e. deeper than monthly retail trade data would suggest. This reflects a deep contraction in market services caused by the lockdown of many service sectors during the initial phase of the pandemic. The decline would be stronger if it wasn't for the substantial fiscal stimulus (in 1H20 about 4% of GDP), which aimed at stabilising the labour market. Hence a natural recovery in consumption and the pent-up demand effect was strong and vigorous (visible in May-June data).

The investment decline (-10.9% YoY) was less severe than feared. This likely reflects large public outlays, in 1H20 - payments of EU funds to beneficiaries rose 20% YoY. The construction sector

proved quite resilient both in infrastructural projects but also in housing.

The last data point that private consumption should catch up quickly, especially in 3Q20 due to pent-up demand effect spurred by high fiscal stimulus and local holidays effect (Poles travel less during the summer and spend mainly on local touristic services).

Still, the consumption recovery should slow in 2H20 as the labour market adjusts to the ending of a government scheme aimed at stabilising employment. Investments are at risk, public outlays should keep progressing given strong dynamics of the EU money paid, but private investment recovery is likely to be sluggish.

Overall, we expect GDP to decline by 3.5 - 4% YoY in 2020. The second Covid-19 wave brings a significant rise in new infections, however, the mortality rate (especially outside of Poland) is lower and lockdown restrictions less severe, therefore we expect the impact on GDP should be less severe in comparison to 2Q20.

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