

Growth in Poland beats expectations and internal demand is probably why

The strong third-quarter numbers support our view that Poland will reach more than 5% GDP growth for the full year. That's despite the continuing spread of the Delta variant. That strong growth and a vibrant labour market should mean core inflation will remain high. So we expect more rate hikes, to around 3%, in Poland and other central European countries



People in Castle Square, Warsaw

3Q21 GDP rose by 5.1% YoY (the consensus was 4.8%, ING at 5.0%), down from 11.2% YoY in the previous quarter. The Year-on-Year GDP growth is strongly affected by base effects. So it's better to look at the Quarter-on-Quarter seasonally adjusted figure which accelerated to 2.1% from 1.8% in 2Q. The Polish economy maintained a solid growth, led by two engines: industry and services, as opposed to 2020-21 when industry was the main engine while services were in recession.

We still think Poland will see 5.4% GDP growth for the year in 2021 despite the ongoing pandemic. Even if the Delta variant slows growth to nothing zero in the fourth quarter, we would still think 2021 growth would likely exceed 5% We think QoQ GDP should look better, given that the government is trying to avoid lockdowns even though the latest wave is strong.

In our research on Central Europe inflation, we underline that demand and wage pressure will become the key factor driving CPI inflation next year. So far external supply shocks have played the lead role. Therefore we see the terminal rate across the region (for Hungary, Romania and Poland) of about 3%, and that should be reached in late 2022 / early 2023. Today's GDP data only reinforces this view. Additionally, economic policies across the region will add to inflation. This includes high rises in the minimal wage (Hungary and Romania), or fiscal expansion (Poland, where structural deficit is expected to widen from 4% to 5% of GDP).

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.