

## 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).

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