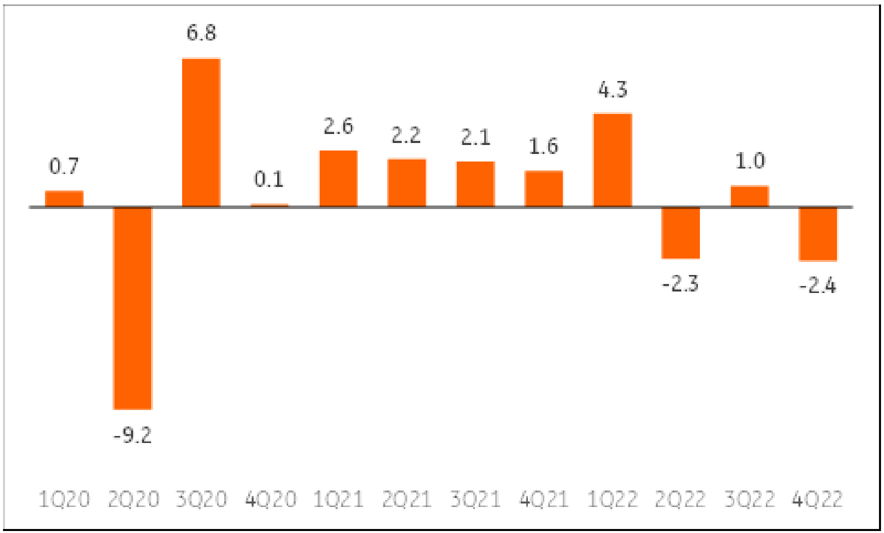
Poland: Composition of GDP facilitating disinflation, price growth to remain high

Fourth-quarter GDP fell by 2.4% quarter-on-quarter (SA, flash estimate) after expanding by 1.0% QoQ in the previous quarter. The beginning of 2023 will be difficult, but we expect 1% economic growth this year, mainly to be driven by net exports. The composition of GDP should support disinflation, however, price growth is still projected to remain high

According to the preliminary estimate (flash) Poland's GDP fell by 2.4% quarter-on-quarter (seasonally adjusted data) in the fourth quarter of 2022 after rising by 1.0% QoQ in the third quarter. The economic growth was choppy in 2022, with quarters of rising activity interspersed with quarters of decline (QoQ SA). On an annual basis, growth slowed to 2.0% in the fourth quarter from 3.6% year-on-year in the third quarter. Based on full 2022 data and previously published quarterly data, we estimate that the fourth quarter saw household consumption decline by around 1.5% YoY, while investment went up by more than 5% YoY. Both changes in inventories and net exports contributed positively to annual growth in the final quarter of 2022.

Poland's GDP %, QoQ (seasonally adjusted)



Source: GUS

The latest GDP data confirm a further weakening of the Polish economy. The beginning of 2023 will be difficult. In the first quarter we may see a decline in GDP on an annual basis, with our current estimate around -1%, rather than the -2% YoY we feared earlier. The energy crisis in Europe is less acute than previously feared and energy commodity prices have fallen significantly. We forecast economic growth of 1% in 2023. The market consensus is also moving in this direction, whereas until recently forecasts in the 0-0.5% range prevailed.

High inflation negatively affects real disposable income of households, which translates into reduced consumption. In turn, high interest rates and weaker prospects for domestic and foreign demand are weighing on companies' investment plans. However, investment activity may be supported by the public sector in 2023, including military spending, which will, however, simultaneously undercut imports.

We expect GDP growth in 2023 to be mainly driven by net exports, with domestic demand falling. Such composition of growth should favour disinflation, but we expect price increases to be mainly pushed by costs rather than pulled by demand. We still expect consumer price growth in 2023 to be in double digits, with stubbornly high core inflation.

Author

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Disclaimer