

## Poland: Higher GDP, lower CPI

The second GDP reading for the first quarter showed marginally better growth compared to the flash reading, but with a poor structure. A deeper contraction should be visible in the second quarter. Inflation fell again, driven mainly by food prices



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### GDP

The second GDP reading for the first quarter of 2020 (2% YoY) showed slightly higher growth compared to the flash estimate (1.9%). The Statistical Office also presented the underlying details. A strong deterioration was visible both in domestic and external demand.

Private consumption expenditure added 0.7ppt to the headline growth rate compared to 1.6ppt in the previous quarter. Similarly, the contribution from investment was close to zero (0.1ppt). In the previous quarter, this amounted to a robust 1.5ppt. Net exports also deteriorated from 2ppt to 0.4ppt. On the other hand, the contribution from inventories was neutral in 1Q, while it reduced growth by 2.5ppt in 4Q.

GDP data reflects the strong influence of lockdowns on economic growth. Restrictions on activity were present only in the last two weeks of March, but they significantly lowered growth. The biggest hit to growth should be visible in 2Q. Industrial and retail trade activity deteriorated in April by more than 20%. We also see only a limited recovery in May. Therefore, overall GDP is likely to

fall by 9-10% YoY in 2Q and 4.5% YoY in the whole of 2020.

## CPI

According to a flash estimate, CPI slowed in May to 2.9% YoY from 3.4% in April, close to our forecast (2.9%) and market estimates (3.0%). Food prices showed the strongest decline from 7.4% to 6.1% YoY, which subtracted over 0.3ppt from the headline figure. The annual decline of fuel prices was also stronger, subtracting an additional 0.2ppt from the CPI.

The data suggests small changes to core inflation – which likely stabilised around 3.6% YoY. Prices of goods and services, unavailable during the lockdown, are imputed by GUS and don't reflect actual changes related to the pandemic. This has most likely resulted in prices related to recreation, air travel etc being overstated. Therefore weak demand should result in lower CPI as soon as restrictions are lifted – most likely in June.

Lacklustre demand is expected to lower CPI in the following months as well. We estimate CPI will reach the National Bank of Poland's target (2.5% YoY) in July and undershoot it at year-end (1.2%YoY). All in all, 2020 CPI should average 2.8% YoY.

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