

## Poland's economy set to slow but we're more optimistic than most

According to a flash estimate, GDP grew by 4.9% in 2022, compared to 6.8% in 2021. This implies growth of around 2.0% in the fourth quarter. This year, GDP should slow to around 1% year-on-year given that inflation will eat into disposable incomes and inventories will dent growth



Household consumption increased by 3.0% last year and fixed investment jumped by 4.6%. The change in inventories boosted economic growth by 2.9pp, while foreign trade subtracted 0.4pp.

We estimate GDP growth in the fourth quarter at around 2.0%-2.3% YoY - a marked slowdown from 3.6% in the third. Still, the end of the year was not as weak as the consensus estimate (1-1.5% YoY) and GDP growth was close to our GDP estimate for the fourth quarter (around 2% YoY).

The full-year data also provides a preliminary estimate of GDP components in the fourth quarter. The reason for stronger-than-expected GDP growth remained the rebuilding of inventories, exports and investment, while consumption recorded a strong slowdown. We estimate that in the fourth quarter, household consumption declined by 1.5-1.8% YoY while fixed investment increased by

5.1-5.3% YoY. The consumption result should be considered disappointing and confirms that inflation is a serious problem, weighing on real disposable income and spending. In contrast, the increase in investment is a positive surprise. According to our estimates, in the last quarter of 2022, the change in inventories still had a significant impact in terms of generating economic growth (contribution of 1.5pp), although less than in the third quarter (contribution of 2.2pp). In turn, foreign trade made a positive 0.9pp contribution to GDP growth, compared to 0.6pp in the previous quarter.

Despite the war in Ukraine, last year was successful for the Polish economy, which continued its post-pandemic recovery. Supporting the boom were improvements in supply chains and the influx of refugees from Ukraine. Industry (value-added growth of 7%) and exports performed well in such an environment. At the same time, the economic crisis and high inflation translated into a slowdown over the course of the year. Growth in services production slowed down, which is associated with strong price increases.

We expect GDP growth of 1% YoY in 2023, higher than the consensus. Favourable weather conditions and improved infrastructure have translated into the strong filling of gas storage facilities in Europe. As a result, pessimistic forecasts for the European economy are unlikely to materialise, which improves the outlook for GDP growth in Poland and supports our expectations. However, the beginning of 2023 will be difficult. We expect first quarter GDP to decline on an annualised basis, with the number weighed down by the high base from the same period last year, when the economy grew by 4.3% quarter-on-quarter (seasonally adjusted) and 8.6% YoY. The economic situation should improve in the second half of the year. Unless Europe encounters problems securing energy sources for next winter season (2023/24), we expect economic growth of about 1% this year. This should be accompanied by a rapid decline in CPI, but with persistently high core inflation, which will not allow interest rate cuts before the end of this year. Poor consumption in the fourth quarter still supports a dovish MPC stance.

## Author

### Rafal Benecki

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

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