

## Poland: Strong GDP and high inflation put pressure on MPC

GDP in Poland has already recovered from the pandemic. This is due to a rebound in domestic demand. However, this has also brought strong upward pressure on prices. The latest comments from MPC members suggest an increasing probability of a rate hike in November



# 10.9%

GDP growth in 2Q21 (YoY)

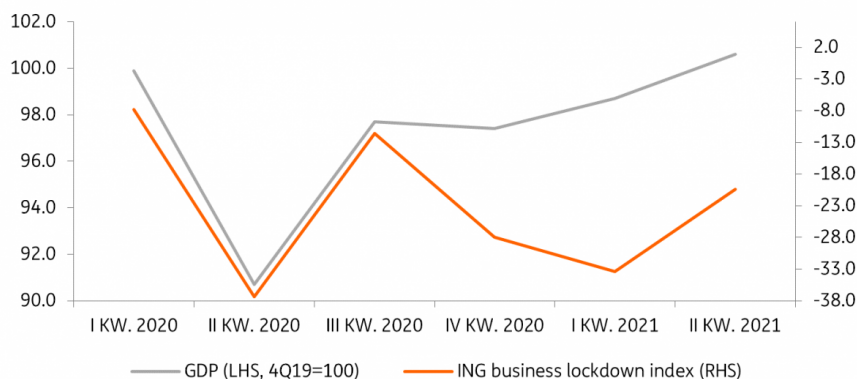
Consensus at 11.0%

GDP in Poland grew by 10.9% year-on-year in 2Q21, in line with expectations (11% YoY). This translates into a quarter-on-quarter growth rate of 1.9% after seasonal adjustments. The detailed growth structure will be published on 31 August. The relaxation of restrictions in May supported the rebound in domestic demand, including household consumption and the continued strong performance of investment. Market services should also be strong.

The Covid recession in Poland ended in 4Q20, i.e. one quarter ahead of the euro area. Companies in

Poland have become increasingly resilient to successive waves of Covid-19. Since the beginning of the year, GDP in Poland has been on an upward trend, which only accelerated with the loosening of restrictions.

## GDP (4Q19=100) and the business lockdown index

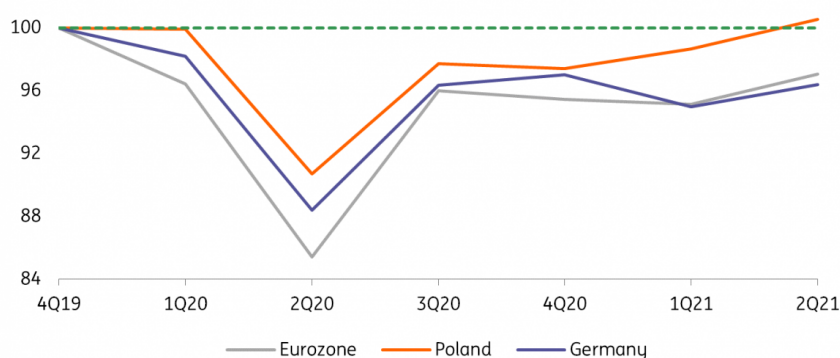


Source: CSO, ING

The economic recovery was so strong that in 2Q21 the real level of GDP exceeded that seen in 4Q19 – before the pandemic. Eurozone countries, including Germany, are still waiting for this to happen.

Unprecedented government support for companies in Poland limited the impact of the pandemic on the labour market and allowed consumption to rebound more quickly. There was also a positive contribution from highly diversified production in Poland, which makes the economy more flexible in responding to disruptions in supply chains. Domestic firms enjoyed a shift in demand from unavailable services to durable goods. Companies in Poland also substantially increased their investment in 1Q21 (by as much as 18.2% QoQ SA), above the pre-pandemic level. We think that in 2Q21, investment stabilised at this high level.

## GDP (Real, 4Q19=100)



Source: CSO, Eurostat, ING

Continued disruptions in supply chains and the rising prevalence of the Delta variant may somewhat dampen the pace of the 3Q21 rebound, but we remain optimistic. For the whole of

2021, we estimate that real GDP growth in Poland may reach as much as 5.5% YoY.

**5.0%** CPI in July (YoY)  
In line with flash estimate

CPI inflation in July accelerated from 4.4 to 5.0% - the flash reading confirmed. All the main CPI aggregates contributed to the faster price growth. The price of fuel increased by 30% YoY, food by 3.1%, energy by 5.3%, and we estimate core inflation was 3.6% YoY compared to 3.5% in June (0.4% MoM after 0.0% in June).

We maintain our view that the upward pressure on CPI in Poland should persist in the coming months. PPI inflation is still accelerating, which points to rising costs for companies. Given a strong rebound in demand, it should be easier now for companies to pass these costs onto consumers. The output gap in Poland is closing and should soon signal that the economy is overheating, supported by the Polish Deal, which is aimed at further boosting consumption. The growth of food prices is also accelerating.

Our base case for rates hike in Poland remains unchanged - with the first hike in November. We think that the fourth wave of Covid-19 may give the MPC a reason to postpone hikes for the time being. In the autumn, however, it will be much harder to find reasons to wait. In November, when the National Bank of Poland prepares its projection update, it should be possible to assess the impact of the current Covid-19 wave on GDP (in our opinion this will be limited). The NBP should also be able to estimate the impact of the tax changes under the Polish Deal on inflation. The July projection, which did not include the Polish Deal, already indicated that - after a temporary moderation - CPI at the end of 2023 will reach 3.5% YoY, the upper threshold of the tolerance band.

We have recently heard more MPC members - even the most dovish among them - talk about November as a possible turning point in monetary policy. Yesterday's statement by Jerzy Kropiwnicki (he said that he would vote for a 15bp rate hike in November) supports our forecast for a rate change in Poland.

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