

Poland: Strong GDP in 4Q but downside risks loom amid war in Ukraine

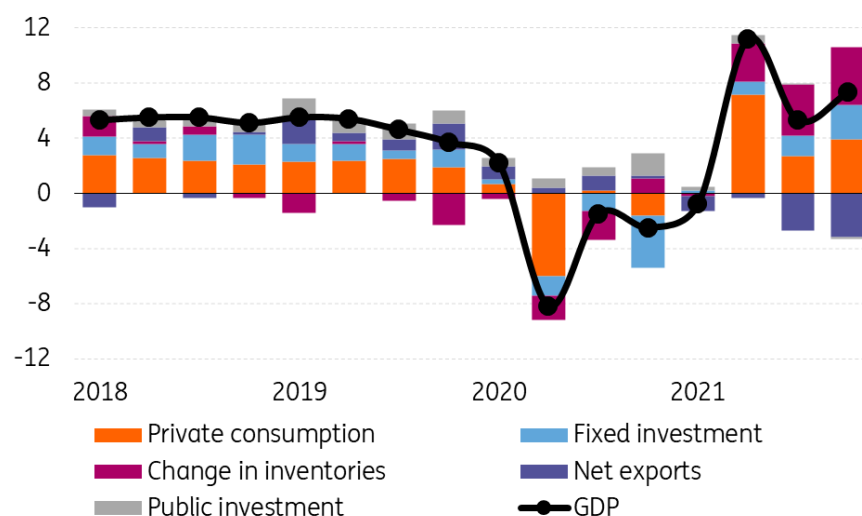
Poland's economy posted buoyant broad-based growth in 4Q21 and started 2022 on a strong footing, but military conflict in Ukraine may curb the pace of expansion in the coming months. Unprecedented uncertainty will weigh on household and business confidence, while the war and sanctions will hit the economy via trade



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The StatOffice confirmed its 4Q21 GDP growth estimate of 7.3% year-on-year. Household consumption went up by 7.9% YoY, while fixed investment expanded at a double-digit pace of 11.7% YoY. The change in inventories contributed 4.2 percentage points to annual growth, while net exports knocked off 3.2 percentage points. Exports rose by 6.0% YoY, while imports were 13.2% higher than in 4Q20. Poland's economy ended 2021 on a strong footing and was still expanding robustly at the beginning of 2022, as confirmed by January readings of industrial and construction output as well as the retail sales performance. Forecasts of February figures also point to high economic activity. Despite elevated inflation, households continue to spend, while a tight labour market suggests second-round effects.

Poland's GDP and its composition, %YoY



Low nominal values of GDP and its components came as a surprise. Despite upward pressure from natural gas and oil, prices of imports declined by 1.5% YoY, while exports prices fell by 2.0% YoY. Household consumption and fixed investment deflators were also negative. As a result, the GDP deflator pointed to a 0.7% YoY decline in prices in the Polish economy in 4Q21, which is counterintuitive.

In the face of the ongoing military conflict in Ukraine, we are experiencing an unprecedented surge in uncertainty, and the economic growth prospects for Poland and Europe have deteriorated markedly. In our view, the main threats to the economic outlook in Poland stem from (1) the decline in trade with Russia and Ukraine as well as (2) a general worsening of household and business confidence which will curb spending and domestic demand. Additional downside factors include (3) an energy shock that will further boost commodity prices and undermine purchasing power. Prolonging anti-inflation measures (indirect tax cuts) until December may counteract the increase in crude oil prices to as much as \$130 per barrel and a potential hike in natural gas prices by 30% in the second half of 2022. On top of that (4) potential breaks in commodity supplies as a result of military action may also hit the economy, however, the impact is difficult to assess.

The coming days and weeks will bring downside revisions to Poland's GDP growth forecasts. Our initial estimates indicate that the military conflict will knock off at least 1.3 percentage points from our 4.5% GDP growth forecast for 2022. After the first wave of downward revisions, the median market forecast for this year is likely to be trimmed to about 3-3.5%. And further revisions remain on the cards.

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