Poland's 1Q GDP adds to inflation risks

The robust data and structure of GDP make the inflation picture even worse. GDP posted a strong positive output gap at the beginning of 2022

People in Castle Square, Warsaw

The Central Statistical Office confirmed the first-quarter economic growth estimate at 8.5% year-on-year. The economy grew at a robust pace in early 2022. The seasonally-adjusted data indicates GDP growth of 2.5% quarter-on-quarter, following a 1.8% QoQ increase in 4Q22. The positive output gap widened, which alongside rising commodity, material, and energy prices contributed to inflationary pressures in the early months of this year.

Pro-inflationary GDP growth structure

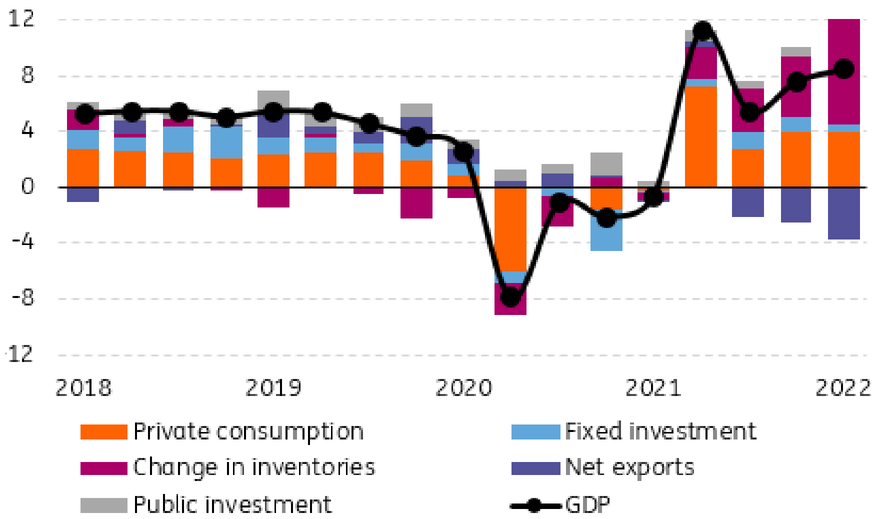
Not only was the GDP growth rate high, but its structure was pro-inflationary. Private consumption remains the flywheel of the economy, which grew by 6.6% YoY on the back of rising household disposable income (double-digit wage growth, PIT cuts). Given increases in social spending (e.g. 14th pension) and further PIT cuts (first rate down from 17% to 12% from mid-2022), this factor will continue to support economic growth.

Investment performance was disappointing. The robust growth in accumulation (57.3% YoY!) was dominated by growth in investment in current assets (inventories), while fixed capital formation increased by only 4.3% YoY, after rising by 5.2% YoY in 4Q21. The change in inventories generated as much as 7.7 percentage points in the annual GDP growth rate. The role of this factor will fade in the coming quarters. Investment activity, on the other hand, will be weighed down by heightened uncertainty due to the war in Ukraine and signs of a marked slowdown in construction, which faces constraints on the demand side (rising interest rates) and on the supply side (strong material price increases, labour shortages).

Domestic demand grew by 13.2% YoY, while trade with foreign countries lowered the annual GDP growth rate by 3.8 percentage points. Exports grew by 2.0% YoY and imports by 8.8% YoY. The deterioration of the trade balance will be one of the factors limiting the GDP growth rate in the coming quarters.

It is worth noting that in nominal terms, GDP grew by as much as 16.3% YoY, which somewhat improves the fiscal picture. In particular, despite the VAT rate cuts, it allows for solid tax receipts and reduces the public debt to GDP ratio due to the strong denominator effect.

GDP structure



After a solid start to 2022, a slowdown is coming

Strong economic growth in 2021/2022 is behind us, with an expected downturn ahead. It is important to note that, unlike the crisis caused by the pandemic, the outbreak of war has not sharply dampened economic activity. Despite a slower flow of new orders, companies are still fulfilling their production backlogs. This does not change the fact that in the second half of 2022 we will see a clearly weaker economy than at the beginning of this year. This is indicated, among other things, by the structure of GDP, i.e. a high dependence on changes in inventories and a deteriorating foreign trade balance.

The coming quarters should bring a slowdown of GDP from 8.5% YoY to about 2% YoY in 4Q22. However, the high starting point implies that average annual GDP will be about 4.7% higher this year than in 2021.

The main factors driving GDP growth down are the supply constraints, i.e. potential material shortages and supply disruptions due to the war and zero-Covid policy in China, uncertainty undermining private investment, and weaker exports not only to eastern trade partners but to western partners as well (eurozone). The inflation shock also undermines consumption, but the fiscal side is trying to offset that, so we expect a rather limited consumption slowdown. We estimate that the decline in economic activity in 2H22 will bring GDP to around potential, which will not be enough to limit inflationary pressures coming from the demand side of the economy.

Authors

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

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