

## Polish economy remains resilient despite war

Poland's industry ended the first quarter on a strong footing (output up by 17.3% year-on-year in March) despite the outbreak of war in Ukraine. GDP grew around 8% YoY in 1Q vs 7.3% YoY in 4Q21. Growth prospects are less bright given the ongoing war and Covid situation in China. The inflationary outlook calls for further rate hikes



Thermal power plant in Wrocław, Poland

### Strong 1Q22 and resilience of Polish economy

Industrial output increased by 17.3% YoY in March beating both our forecast (11.8% YoY) and market expectations (11.6% YoY). The February reading was revised upwards to 18.2% YoY. Despite the high reference base from March 2021 (output jumped by 18.3% MoM), annual growth of industrial production in March this year matched strong readings from the first two months of 2022.

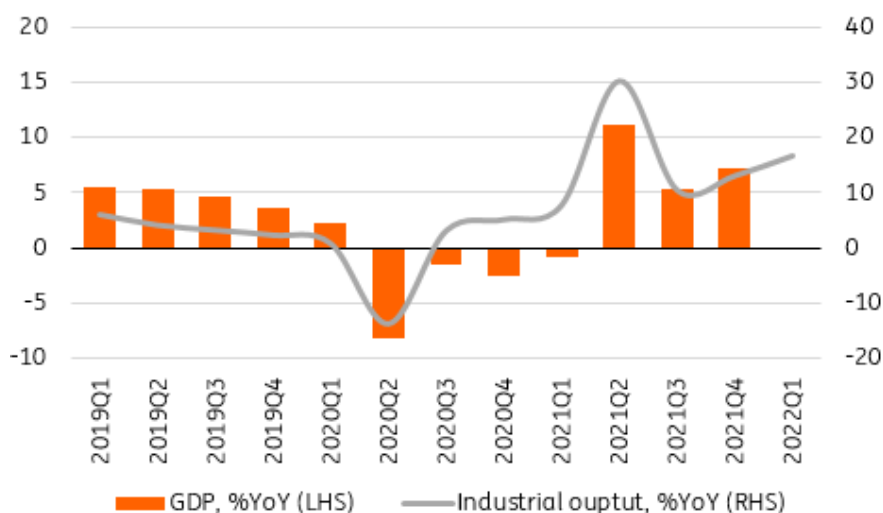
The strong growth in production was boosted by activity in segments linked to energy production and supply, with output soaring by 77.4% YoY (we have some doubts about the quality of this data). But other "old industry" sectors also performed well. Production in mining went up by 23.1% YoY as expensive natural gas made energy from coal a more attractive alternative.

The pace of manufacturing output growth moderated only slightly – to 12.4% YoY from 15.9% YoY in February. The war in Ukraine triggered some diverging trends. On the one hand, production in the automotive sector fell by 12.7% YoY amid downtimes due to the lack of some inputs. On the other, heavy industry was doing well (manufacture of metals, oil refining, shipyards). Other segments of manufacturing also posted solid growth figures.

March was the first full month since the outbreak of war in Ukraine, but this tragic event had no major impact on domestic industry, which continued to fill earlier orders. Also, initial signals suggest that on a net basis, the military conflict did not hurt Polish output, as downtimes in automotive production were more than offset by higher output of energy, mining and heavy industry. Local producers have either made up for the lack of imports from Ukraine and Russia or extracted more domestic coal due to expensive natural gas.

The prospects for the coming months are less optimistic, but we still see upside risk to our 3.2% YoY GDP forecast for 2022. The Covid-19 outbreak in China and successive lockdowns may yet impact Poland’s manufacturing in the coming weeks but the starting point in 1Q22 is so high that this calls for higher GDP growth in the full year than we expected previously. In March, Germany (Poland’s main export partner and a key destination for manufacturing products) lifted Covid restrictions. In 1Q22, industrial output rose by some 17% YoY vs. 13.1% YoY in 4Q21. This suggests that in the first quarter of this year GDP growth could have reached 8% YoY.

## Industrial output performance points to strong 1Q22 GDP in Poland



Buoyant economic growth allows the MPC to focus on taming inflation and continue its monetary tightening cycle.

## Record high PPI indicates upside risk for CPI

Producer prices (PPI) increased by 20.0% YoY in March (ING: 19.0% YoY; consensus: 18.1% YoY). The military conflict in Ukraine led to soaring prices of energy, metals and other manufacturing

products. Coke and refined petroleum product prices rose by 89.4% YoY, while the production of metals rose by 33.5% YoY. Price growth in food production is also gaining momentum (up by 16.5% YoY in March).

The high PPI data signals upside risk to consumer prices. These pass-through of higher production costs to the CPI will be seen in the coming months. Robust economic growth and inflationary pressure support our view of interest rates rising to 6.5% this year and the odds of rates going up to 7.5% are increasing.

## Outlook for economic activity

The beginning of 2022 was very positive for the Polish industrial sector but the outlook is less bright. The risk of serious disruptions in supply chains and shortages of inputs has increased markedly amid the war in Ukraine and lockdowns in large Chinese cities which play a major role in global industry and exports (Shanghai, Dongguan, Shenzhen). At the same time, manufacturers are coping with high prices of commodities and energy. On the positive side, domestic mines, energy suppliers and heavy industry benefit from limited supplies from Ukraine and Russia and expensive natural gas supports domestic coal extraction.

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