Polish 2021 growth numbers suggest more tightening ahead

Fourth-quarter 2021 GDP numbers for Poland, stripped from the yearly data, point to an ongoing consumption boom. And that raises the chances of second-round CPI inflation risks

Shoppers in Warsaw

Polish GDP in 2021 grew by 5.7% Year-on-Year (ING Forecast: 5.9% YoY, consensus: 5.5% YoY), according to preliminary estimates.

This is what the 2021 GDP data tells us about the condition of the economy in the fourth quarter of last year:

- We see very strong economic growth in 4Q21 (with GDP dynamics over 7.0% YoY. In our opinion, quarterly GDP data at the end of February should come in at more than 7% YoY in 4Q21)
- A continuation of the consumption boom at the same time; we estimate that consumption increased by around 8% YoY in 4Q21 vs 4.7% in 3Q21.
- The end of 2021 brought a slight decline in public consumption
- Investment growth even accelerated to 12% YoY vs 9.3% YoY in 3Q2; in sequential terms investments grew by a sound 10% QoQ (non-annualised).
- Inventories deducted 4pp from GDP

- Foreign trade subtracted 3pp.

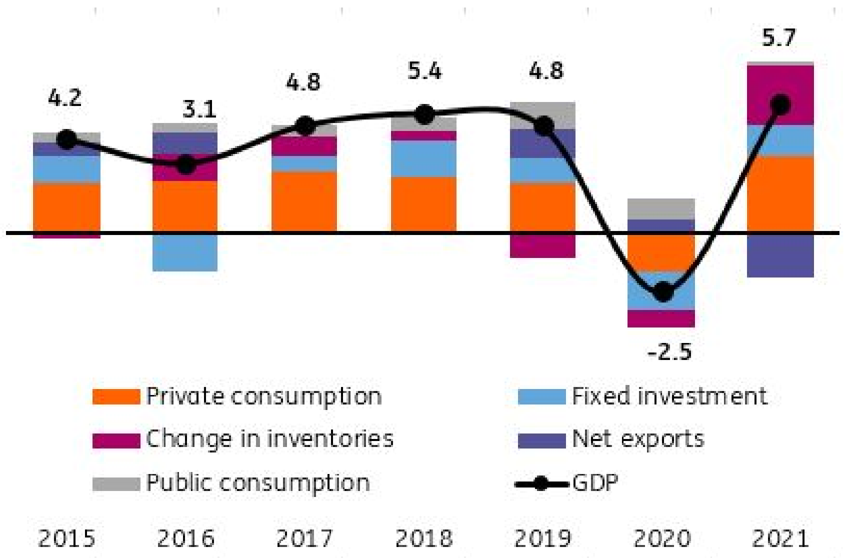
In short, the consumption boom continues, but investment recovery keeps surprising to the upside. Overall GDP in 4Q21 presents a strong starting point for 2022 and a good chance for the continuation of the second-round effects on inflation – that companies can easily pass the rising costs to retail prices.

That is why the National Bank of Poland president said a week ago that rate hikes would continue at a higher level than priced by the market. We point out that the terminal NBP rate we pencilled in at 4.5% in 2023 may already come to pass this year.

We also consider the governor's comment as a verbal intervention. The NBP is fighting to temper inflation in the short term because the rate hikes' pass on CPI has a lag of four to six quarters. The more effective method to tame inflation in the short term is a stronger PLN, which is why the NBP is intervening via the expectations channel. Still, a significant strengthening of PLN will be difficult without an agreement with the EU on the Recovery Fund which may unlock EU funds. Importantly, should the Polish government fail to reach an agreement with the EC by the end of 2022, access to the Recovery Fund may be lost indefinitely.

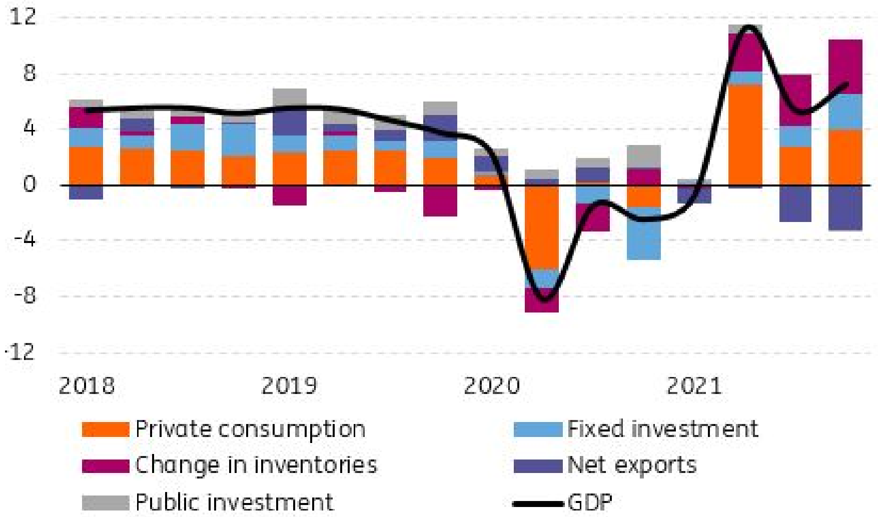
2021 brought fast economic recovery

GDP yearly data



GDP maintained strong momentum with consumption boom and better investments in 4Q21

Quarterly data GDP



Source: Central Statistical Office, ING estimates

The GDP (quarterlty backdrop, GDP %y/y and contributions to GDP in pp)

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