

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.

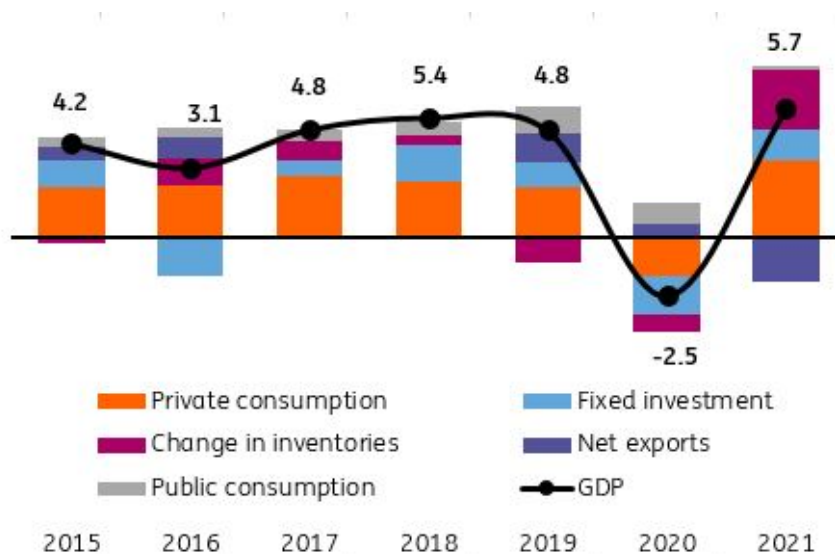
In short, the consumption boom continues, but investment recovery keeps surprising to the upside. Overall GDP in 4Q21 presents a strong starting point for 2022 and a good chance for the continuation of the second-round effects on inflation – that companies can easily pass the rising costs to retail prices.

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.

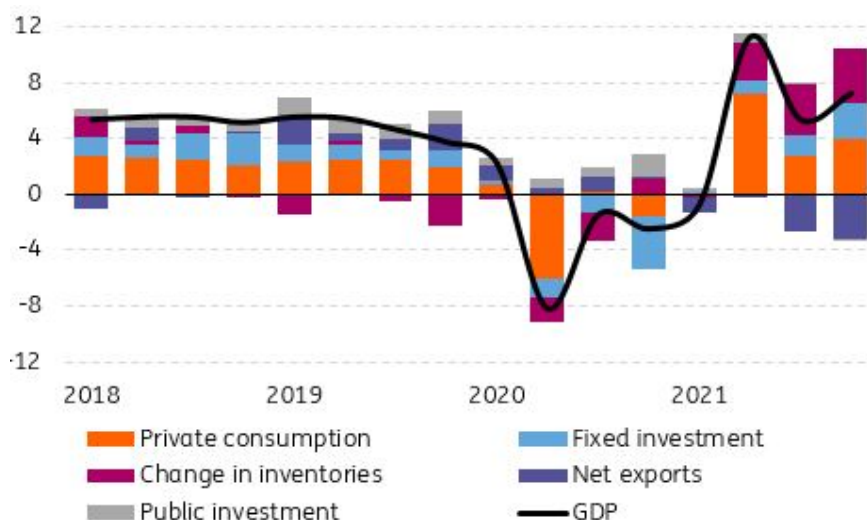
2021 brought fast economic recovery

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

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.