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Economic Comment

Winter is coming

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Polish GDP growth in 2Q22 slowed to 5.3% y/y from 8.5% y/y in 1Q and was well below expectations (market consensus around 6% y/y, our forecast at 7% y/y). GDP corrected for seasonal effects, fell by 2.3% q/q after the 2.5% q/q increase in 1Q. This was the second deepest quarterly decline in GDP in the history of comparable data (after an exceptional drop by 9.1% q/q at the start of the Covid-19 pandemic). The GDP data show that the recession in the Polish economy started earlier and on a stronger note than widely expected. In our view, this suggests a worse-than-expected scenario for the coming quarters. We will wait with deeper GDP forecast revisions until September, but at this stage it seems unlikely that average GDP growth in 2022 will be above 4% and above 1% in 2023.

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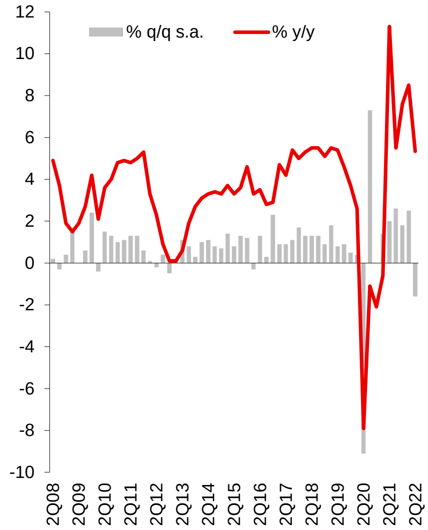
We do not know the structure of 2Q GDP yet (this information will be published at the end of August), but we suspect that the deterioration was seen in almost all components, most notably inventories, which had risen very strongly at the turn of the year, just before the start of the war in Ukraine. We also expect a deterioration in investment and household consumption.

The GDP data show that the recession in the Polish economy started earlier and on a stronger note than widely expected. In our view, this suggests a worse-than-expected scenario for the coming quarters. Economic indicators show that global economic activity continues to weaken, and there is a growing risk of energy shortages in Europe during the winter season (or at least, in the 'optimistic' scenario, of very high prices). In addition, there are increasing signs that we should not count on unblocking funds for Poland from the Recovery Fund in the near future. Under these conditions, we should not hope for a rapid rebound in economic activity. The recession scenario is becoming a reality. This year, the annual GDP growth rate will obviously remain in the positive territory, due to the very high starting point and the inertia of the y/y indicator. However, GDP growth could slip below zero as early as the beginning of 2023. We will wait with deeper GDP forecast revisions until September, but at this stage it seems unlikely that average GDP growth in 2022 will be above 4% and above 1% in 2023.

The dismal GDP data will, in our view, be an important argument for the MPC to hold off on further rate hikes. NBP President Adam Glapinski has repeatedly stressed how important it is for him to avoid a major recession in the economy. We therefore assume that the NBP's interest rates will remain unchanged in September, provided that the flash CPI reading for August shows a decline.

Poish GDP growth, constant prices



Source: GUS, Santander

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