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Economic Comment

Polish GDP growth accelerated above 3% y/y

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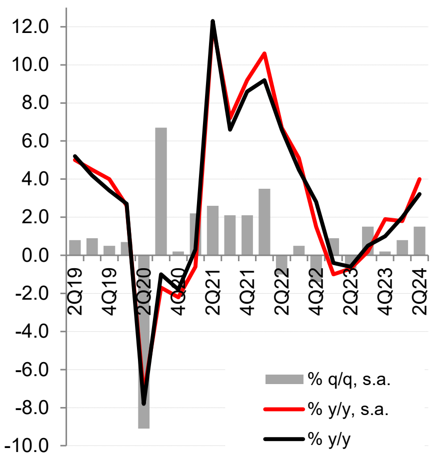
Polish GDP growth accelerated to 3.2% y/y in 2Q24, exactly in line with our forecast and clearly above market consensus, which has moved down in last few days to 2.7% y/y according to Bloomberg. Data denied the pattern of downside GDP surprises in the CEE region, proving bigger resilience of Poland than the smaller peers. We still do not know the breakdown of GDP in 2Q (it will be released at the end of August) but our best guess is that the economy was mainly supported by private and public consumption, which was a function of exceptionally fast wage increase. Seasonally adjusted GDP jumped 1.5% q/q after 0.8% q/q in 1Q (revised up from 0.5%), and as much as 4.0% y/y.

Statistical Office confirmed that CPI increased in July to 4.2% y/y (1.4% m/m) from 2.6%. This comprised increase in services inflation to 6.2% from 6.1% and in goods inflation rising to 3.5% from 1.3%, driven mainly by increase in energy (11.8% m/m) and food prices (0.7%). Detailed breakdown showed higher than we assumed price increases in non-alcoholic beverages and tobacco, communication and recreation and culture, partly offset by lower price growth prints in remaining categories. We estimate core inflation at 3.7% y/y (0.3% m/m) vs. 3.6% in June. We expect inflation will reach ~5.3% at year-end and peak at ~6% in March 2025. We presume core inflation will remain in range of 3.7%-4.5% till end of 2025. Based on the inflation trajectory and today's solid GDP print along with strong wages we do not expect MPC to shift its rhetoric anytime soon and we keep our baseline forecast for first rate cut at earliest in mid-2025.

GDP growth in Poland



Source: GUS, Santander

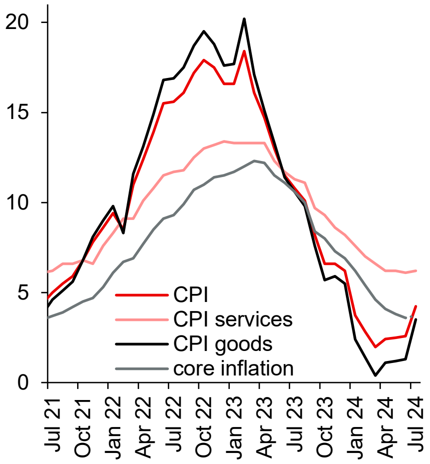
The Polish economy pushed up the pace

Polish GDP growth accelerated to 3.2% y/y in 2Q24, exactly in line with our forecast and clearly above market consensus, which has moved down in last few days to 2.7% y/y according to Bloomberg. After the neighbouring CEE countries posted weaker than expected GDP prints for 2Q, many analysts and investors were afraid of negative surprise also in Poland but we were arguing (rightfully, it seems) that Poland should be more resilient to economic slowdown in Germany because of the size of its internal market and the health of the local consumer. We still do not know the breakdown of GDP in 2Q (it will be released at the end of August) but our best guess is that the economy was mainly supported by private and public consumption, which was a function of exceptionally fast wage increase.

Seasonally adjusted GDP jumped 1.5% q/q after 0.8% q/q in 1Q (revised up from 0.5%), which is the highest growth since 1Q22. The annual GDP growth (s.a.) accelerated to as much as 4.0% y/y. This is good news, however we still remain skeptical about the reliability of the seasonally adjusted data for Polish GDP.

Overall, the data was a big positive surprise for the market and most of analysts and will probably join the list of arguments for the MPC (together with avvery rapid wage growth) to avoid hurry with monetary policy easing. We still expect the first interest rate cut in Poland in July 2025.

Inflation measures, % y/y



Source: GUS, NBP, Santander

CPI inflation confirmed at 4.2% y/y in July

The final print of July CPI inflation confirmed its rebound to 4.2% y/y from 2.6% y/y in June. The rebound was mainly due to the partial unfreezing of energy prices, resulting in an increase in this category by 11.8% m/m. Due to this, the goods prices inflation accelerated from 1.3% y/y in June to 3.5% y/y (the highest reading this year), while the growth rate of services prices remained slightly above 6% y/y (6.2% y/y in July after 6.1% in June).

Monthly food price drop much smaller than a year ago

Inflation in the prices of food and non-alcoholic beverages rebounded to 3.2% y/y in July from 2.5% y/y in June, as a result of a monthly decline in prices by 0.5%. In July last year, Food and non-alcoholic beverages decreased by 1.2% m/m.

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A seasonal decline in fruits prices in July was unusually small compared to the seasonal pattern (a decrease of only 0.9% m/m, which we see as the effect of lower supply due to drought). Prices of oils and fats were also relatively high (mainly due to the further increase in the price of butter – by 1.5% m/m in July, after an increase by 2.6% in June, on an annual basis the increase in butter prices reached 10.9%). Coffee prices increased by 1.4% m/m. Fruit, bread and non-alcoholic beverages were all about 5% more expensive in July than a year ago.

On the other hand, unusually low monthly price changes occurred in the case of rice (-1.0% m/m), flour (-1.3% m/m) and eggs (-1.2% m/m). The marked decline in sugar prices continued – as in June, it exceeded 2% m/m, its price is already 23.7% lower y/y. In the case of vegetables, there was not as much of a drop in harvest as in fruit, hence prices fell 5.5% m/m, so even slightly more than usual in July.

We assume that the annual growth rate of food and non-alcoholic beverage prices will continue to rise and will soon reach 5%. In the first half of 2025 it may peak at around 6-7% due to this year's drought effect.

Energy was behind the July inflation rebound

Energy prices increased by 11.8% m/m in July, including electricity prices up by 19.9% m/m and gas by 16.8% m/m. This is a consequence of the expiry of the previous anti-inflation shields and the entry into force of new regulations, changing the price lists of energy services, among others. The increase in the heat price cap did not result in a one-off large price adjustment (+0.3% m/m in July) due to the dispersion of this market. Instead, we should see a gradual and spread in time increase in this category. Solid fuel prices increased by 1.2% m/m. From August, Polish households can apply for an energy voucher to compensate for the increase in energy prices, but in our opinion, due to the form of this tool, it will not be included in the CPI. There are signals from the government about the will to continue to protect households (perhaps only some groups) against increases in energy costs in 2025, at the same time the energy capacity fee will be kept at zero only throughout 2H24. Taking this into account, we think the new year will see a slight increase in energy prices, in the order of 1%.

Fuel prices remained unchanged in July on a monthly basis, and increased by 1.2% on an annual basis. Doubts around the global economic recovery and a relatively strong zloty should be conducive to stability of this part of the CPI, while base effects may still affect the annual growth rates in the following months.

Core inflation slightly down

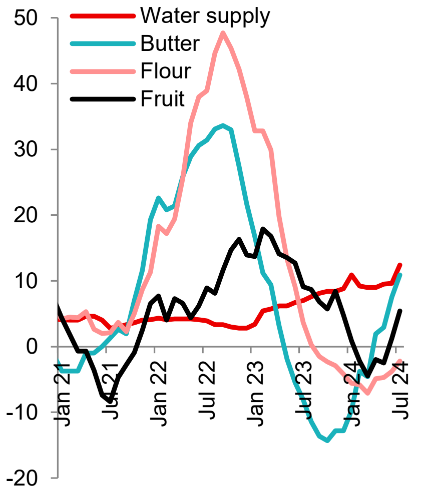
We estimate that prices in core categories increased by c. 0.32% m/m, which likely contributed to increase in annual core inflation to 3.7% y/y in July from 3.6% y/y in June.

There were a several core categories contributing to higher annual inflation including among others domestic tourism (4.9% m/m), footwear (-2.1% m/m), furniture (0.7% m/m). As headline inflation surprised to the downside vs. initial expectations, one of the reasons might have been lower than expected increase in water and sewage collection prices in July, which were planned at quite substantial level this year but spread across regions and months. Water supply prices increased by 3.1% m/m, which translated into increase in annual inflation to 12.4% y/y from 9.6%, while sewage collection prices increase by 1.7% m/m resulting in acceleration in annual price growth to 11.3% y/y from 10.2%. Large price increases in these categories might pose some upside risk to our August inflation forecast as some price changes might have been introduced with some delay (e.g. in Warsaw).

Price increase in the above-categories were only partly offset by lower price dynamics in categories affected by still strong currency and relative weakness in exports. Telecommunication and audiovisual equipment recorded deceleration in annual price dynamics in July to -11% y/y from -10.6% and to -8.3% y/y from -7.3% respectively. At the same time with smaller monthly price growth of 3.5% m/m in newspapers than a year ago for newspapers annual price dynamics declines to -1.2% y/y from +4.2%.

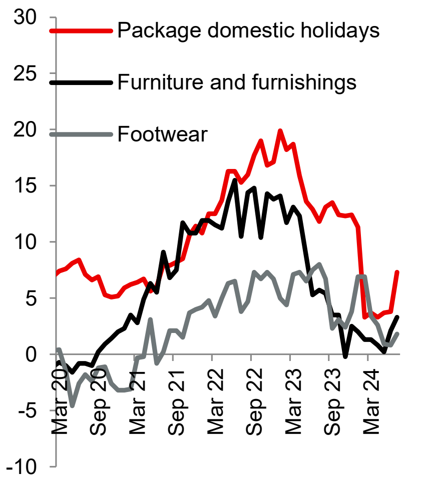
We presume core CPI will remain in range of 3.7%-4.5% till end of 2025 and will be supported primarily by a high increase in labour costs.

Selected CPI components, % y/y



Source: GUS, Santander

Selected CPI components, % y/y



Source: GUS, Santander

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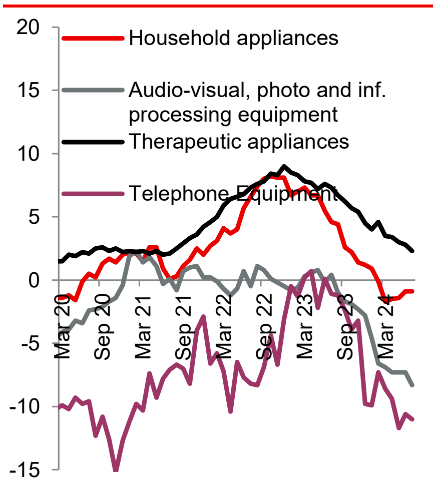

Source: GUS, Santander

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