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Economic Comment

2Q GDP not as bad as expected, CPI at 3%

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Poland's GDP fell by 8.2% y/y and 8.9% q/q (sa) in 2Q20, so the reading was a bit better than market expectations. Still, fall in GDP was the worst since early 90s and this was the second negative q/q reading in a row (-0.4% in 1Q20), so Poland fell into recession by definition. In our view, there will be improvement of GDP growth in the quarters to come, yet it is likely to remain in the negative territory until end of 2020. The entire year result is likely to be better than we expected (-3.8%), and we will be revising this forecast upwards. July CPI was 3.0%, lower than indicated in the flash release, services prices inflation eased somewhat and it seems we are approaching the point where core inflation starts to decline.

GDP fell less than expected

GDP in EU, % change, SA

| | 2Q20 | 2Q20 |
|-------------|-------|-------|
| | vs | vs |
| | 1Q20 | 4Q19 |
| Spain | -18.5 | -22.7 |
| Hungary | -14.5 | -14.8 |
| Portugal | -13.9 | -17.2 |
| France | -13.8 | -18.9 |
| Italy | -12.4 | -12.9 |
| Romania | -12.3 | -12.0 |
| Belgium | -12.2 | -15.3 |
| Cyprus | -11.6 | -12.7 |
| Austria | -10.7 | -12.8 |
| Germany | -10.1 | -11.9 |
| Bulgaria | -9.8 | -9.5 |
| Poland | -8.9 | -9.3 |
| Sweden | -8.6 | -8.5 |
| Netherlands | -8.5 | -9.9 |
| Czechia | -8.4 | -11.5 |
| Slovakia | -8.3 | -13.1 |
| Latvia | -7.5 | -10.2 |
| Denmark | -7.4 | -5.5 |
| Lithuania | -5.1 | -5.4 |
| Finland | -3.2 | -5.0 |

This reading compares quite well with other EU economies, as half (among 20 countries that already published the data) recorded a q/q decline stronger than 10%, with Spain suffering the worst decline of 18.5% q/q.

We are waiting for details, due for release on 31st August. We are expecting a major decline in investment and a somewhat less pronounced fall in consumption. Contribution of net exports could prove positive, given yesterday's data on balance of payments. It also seems that value added in services fell by about 10% y/y, which is not bad, as this sector seems to be the most vulnerable. In our view, there will be an improvement of GDP growth in the quarters to come, yet it is likely to remain in the negative territory until end of 2020.

The entire year result is likely to be better than we expected (-3.8%), and we will be revising this forecast upwards.

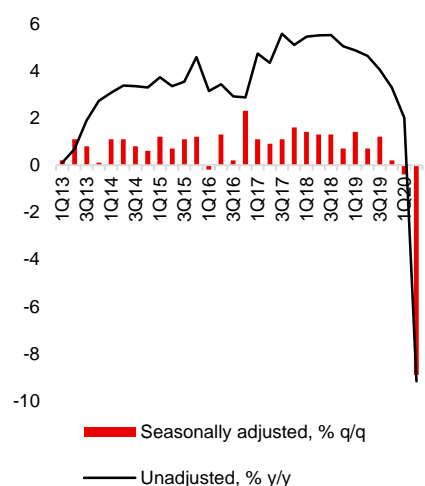
CPI lower than flash estimate

Polish July CPI was shown by GUS at 3.0% y/y, -0.2% m/m vs the flash release of 3.1% y/y and -0.1% m/m. We are correcting our estimate of core CPI to 4.0-4.2% y/y from 4.3% y/y, which – if confirmed by official release due Aug 17 - would still be the highest reading in 18.5 years. Inflation of goods prices eased to 1.5% y/y from 1.8% and services prices to 7.3% y/y from 7.4%.

The decline of y/y inflation from June's 3.3% was caused by lower growth of food prices (3.9% y/y vs 5.7% previously). As for core CPI: clothing and footwear prices grew significantly more in y/y terms than we assumed as did house maintenance costs, telecom services and 'other goods and services' (a category including hairdressing and insurance), on the other hand transport and leisure and cultural activities prices came below our expectations. As for the latter category, an interesting divergence has appeared with some items falling (books and newspapers as well as package holiday prices inflation falling - having risen to 6% y/y in June it declined rapidly in July to 1.2% y/y) while others are on the rise (leisure, sports and cultural services, audio-visual equipment, video services subscriptions).

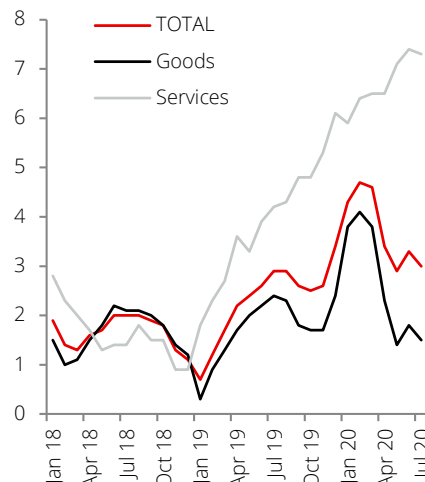
It seems we are approaching the point where core inflation starts to decline (possibly already in August), yielding to the pressure of decreased domestic demand. After the July data it seems more likely CPI growth will get below the NBP target of 2.5% y/y by the end of this year.

Poland GDP growth



Source: GUS, Santander

CPI, main categories, %/y



Source: GUS, Santander

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