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Economic Comment

GDP dragged lower by the second wave

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GDP in 4Q20 was confirmed at flash -2.8% y/y and -0.7% q/q sa. Details proved to be roughly in line with our estimates based on the annual data. We think that the GDP growth will remain sluggish in 1Q21 (close to zero in q/q sa terms), there is also an increasing risk that the weakness may be prolonged in to 2Q, as the third wave of Covid-19 seems to be around the corner. Nevertheless, we stick to the view that in 2H21 the economic growth will gain pace significantly as vaccination rollout will be progressing. Our forecast for 2021 sits at +4.6%.

4Q20 GDP was negatively affected by the second coronavirus wave and tightened restrictions, which included, among others, shutdowns of shopping malls, hotels and recreation centers. The domestic demand fell by 3.4% y/y (and by 0.7% q/q sa) as compared by -3.2% y/y. **Private consumption** went down by 3.2% y/y (-2.7% q/q sa) from +0.4% y/y in 3Q20. Public consumption remained robust at 3.4% y/y, unchanged versus 3Q20.

Investment shrank by 10.9% y/y (-2.6% q/q sa) versus -9.0% y/y. Interestingly, investment was not affected more than the consumption (in q/q terms) even though the former GDP component is by far more volatile. While the general investment sentiment remains weak, companies are still in good financial shape and the pandemic increased the demand for some types of investment outlays, like digitalization, logistics and storage.

Foreign trade was doing well with exports advancing by 8.0% y/y and imports by 7.9% y/y. As imports were catching up, net exports' contribution fell to +0.4pp from +1.7pp in 3Q20.

We think that the GDP growth will remain sluggish in 1Q21 (close to zero in q/q sa terms) due to the third wave of the epidemic, there is also an increasing risk that the weakness may be prolonged in to 2Q, as the third wave of Covid-19 seems to be around the corner. So far the vaccination rollout is slower than expected and news flow on vaccine supply is negative to outlook for 2Q. Nevertheless, we stick to the view that in 2H21 the economic growth will gain pace significantly as vaccination rollout will be progressing. Our forecast for 2021 sits at +4.6%.

GDP growth and its components (% y/y)

	2019	2020	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	4.5	-2.7	3.6	1.9	-8.4	-1.5	-2.8
Domestic demand	3.5	-3.9	1.9	1.0	-9.9	-3.2	-3.4
Total consumption	4.4	-1.6	3.8	1.5	-7.5	1.0	-1.4
Private consumption	4.0	-3.0	3.6	1.2	-10.8	0.4	-3.2
Public consumption	6.2	3.2	4.5	2.6	3.4	3.4	3.4
Gross accumulation	0.1	-12.8	-2.9	-1.6	-19.7	-20.2	-8.7
Fixed investment	7.2	-8.4	6.2	0.9	-10.7	-9.0	-10.9
Stock building *	-1.3	-0.9	-2.4	-0.3	-2.0	-2.3	0.6
Net export *	1.1	1.0	1.7	0.9	1.1	1.7	0.4

* contribution to GDP growth (percentage points)

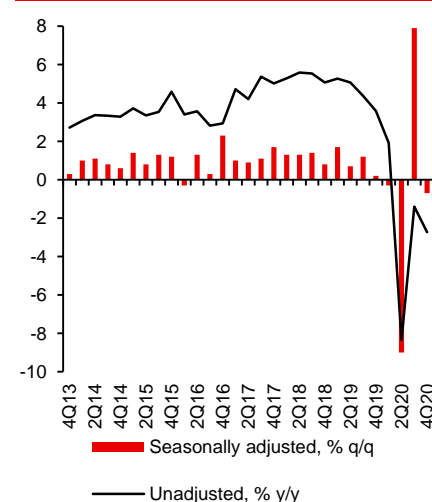
Source: GUS, Santander

On the supply side, the total value added declined by 3.1% y/y, compared to the 8.1% y/y dip during the first wave of the pandemic in 2Q20.

The value added in industry grew even slightly more than the strong monthly data had suggested, by 4.8% y/y, up from 2.9% y/y in 3Q. Other quite resilient sectors were: transport and storage (-0.8% y/y vs -5.7% previously, thanks to the recovering foreign trade turnover in the EU and growing significance of the online trade), real estate activities (growing steadily around 1% y/y) and public services (+2.2% y/y vs 2.7% previously).

Value added in trade responded to new restrictions with a deeper decline than in 3Q (-4.6% y/y vs -0.6%), but much smaller than in 2Q (-11.6% y/y). The heavily affected by

Polish GDP growth



Source: GUS, Santander

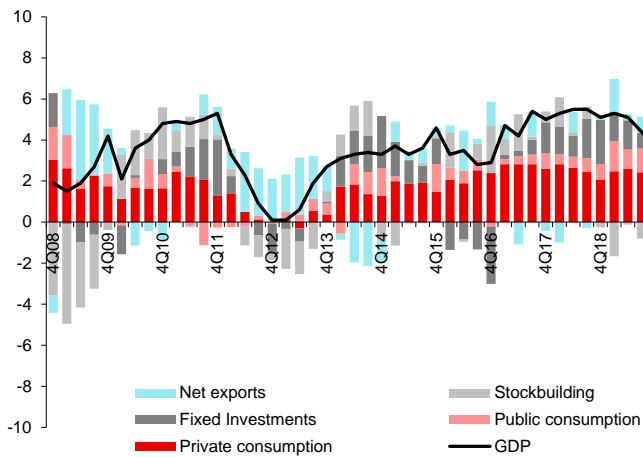
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restrictions hotels and restaurants sector showed a drop of activity (-69.3% y/y) almost as bad as in the dismal 2Q (-78.4% y/y). The value added by financial institutions and insurance companies as well as cultural, entertainment and recreation sector (not shown directly by GUS, the data for these are derived as residual values) suffered even more than during the first wave of pandemic.

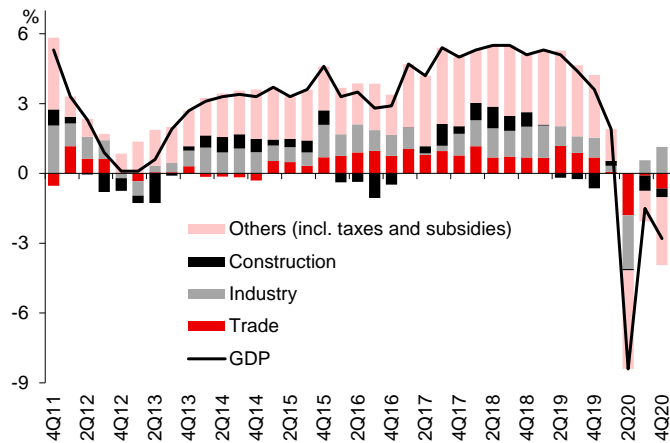
Construction sector performance in 4Q was in line with what the monthly data had been indicating - a contraction of more than 5% y/y, but smaller than the 9% drop in 3Q. This means that construction helped industry and transport sectors mitigate the trough caused in the value added by private services and trade. The combined y/y growth contribution of private services and trade was -3.7 percentage points compared to -4.1pp during the first Covid-19 wave in 2Q.

GDP growth breakdown (% y/y)



Source: GUS, Santander

GDP growth breakdown, supply side (% y/y)



Source: GUS, Santander

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