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# Economic Comment

## Solid growth, solid inflation

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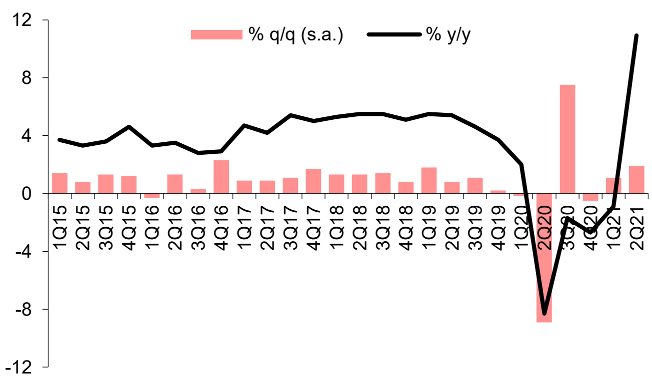
GDP growth in 2Q21 was very strong at 10.9% y/y, not only due to the base effect but also due to solid revival after lifting restrictions, which is confirmed by high 1.9% q/q s.a. increase. Meanwhile, final CPI data confirmed 5.0% y/y level in July, driven not only by more expensive food and fuel but also the core component, including prices of goods rising due to supply-side bottlenecks and services prices up after the re-opening of the economy.

Both rapid economic growth and elevated inflation bring us closer and closer to the monetary policy normalisation, which we think will start in November.

### GDP already above pre-pandemic level in 2Q21

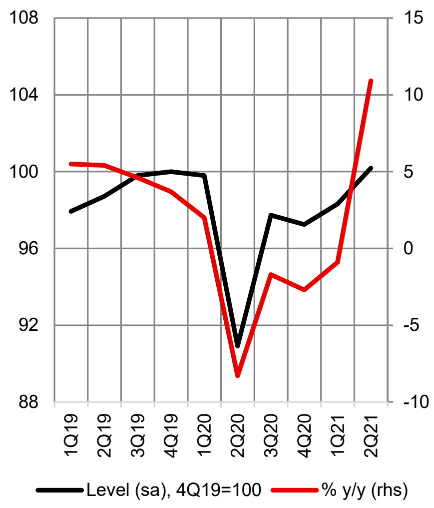
Poland's GDP rose in 2Q21 by 10.9% y/y and by 1.9% q/q s.a., according to the flash release. The result was very close to market expectations and our forecast (we predicted 10.4% y/y, 2.1% q/q s.a.). The record-strong y/y growth (the highest since the comparable data are available, i.e. 1995) partly reflects the unusually strong effect of the low base, but also the strong revival of economic activity after lifting restrictions in the second quarter (q/q GDP rise was the strongest since late 2016). We think that the revival was driven by all components of final demand – recovering consumption, investments and exports (albeit import revival kept net exports' contribution negative). The detailed breakdown will be presented in the second release at the end of August. We estimate that in 2Q21 Poland's GDP (seasonally adjusted) has already returned above the pre-pandemic level and it should continue climbing higher in the coming quarters, making Poland one of the countries that lead the recovery from the recent crisis. We expect to see c.5% GDP growth in both 2021 and 2022.

**GDP growth in Poland**




*Source: GUS, Santander*

**GDP in Poland**

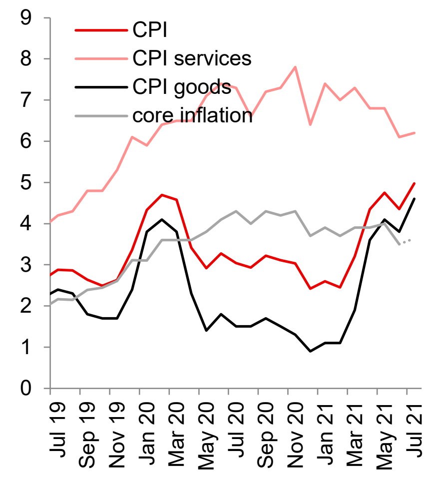



*Source: GUS, Santander*

### CPI boosted not only by food and energy prices

Final CPI data confirmed the flash 5.0% y/y print, the highest inflation level in 20 years. Inflation jump from June's 4.4% y/y was driven partly by prices of food (which dropped only 0.4% m/m, much less than usually in this period), and more expensive fuels (+4.4% m/m), but also by a rise of core inflation component – according to our estimate core inflation ex food and energy rose to 3.6% y/y from June's 3.5%. Prices of goods accelerated to 4.6% y/y (the highest since comparable data are available, i.e. 2018), probably reflecting the growing problems with supplies and rising costs of component, while services prices rose 6.2% y/y (up from 6.1% in June). Data show elevated price growth in those areas of the economy, which opened up after earlier restrictions: restaurants and hotels, transport services, tourist services. We expect inflation rate in Poland to remain near 5% y/y at least until March 2022. Core inflation is also likely to remain elevated, even rising to c.4% at the turn of the year, and unlikely to return to the 2.5% inflation target before 2023. Both rapid economic growth and elevated inflation bring us closer and closer to the monetary policy normalisation, which we think will start in November.

**CPI and selected components, % y/y**




*Source: GUS, Santander*

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