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# Economic Comment

## Strong demand-driven growth and CPI surprise

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CPI inflation jumped in November to 7.7% y/y from 6.8% y/y in October, once again beating the market consensus. According to our estimates core inflation climbed to 4.7-4.8% y/y from 4.5% y/y in September. Price pressure remains very strong and CPI is likely to surpass 8% y/y in December already.

GDP growth in 3Q rose 5.3% y/y and 2.3% q/q s.a. (revised up from the flash 5.1% y/y, 2.1% q/q). The data showed that the economy was on strong recovery path in 3Q, fuelled mainly by the domestic demand. Together with the recent monthly data on real activity in October, they allow to be very optimistic about 2021 GDP outcome: we see the room to lift estimates for this year to 5.4%, at least. We think that solid GDP data, together with high CPI print, is a strong argument for MPC to deliver another significant rate hike in December (+75bp is our base case scenario).

### CPI inflation keeps rising, beating market expectations

CPI inflation jumped in November to 7.7% y/y from 6.8% y/y in October, once again beating the market consensus (at 7.4% y/y for this release). All categories shown in the flash reading contributed to higher CPI, with food prices accelerating to 6.4% y/y from 5.0% y/y, fuel to 36.6% y/y from 33.9% y/y and energy to 13.4% y/y from 10.5% y/y. According to our estimates core inflation climbed to 4.7-4.8% y/y from 4.5% y/y in September.

Price pressure remains very strong and CPI is likely to surpass 8% y/y in December already. While the government's "anti-inflation shield" is likely to temporarily deduct 1.0-1.5pp in 1Q22, we think CPI could still climb above current levels in 2Q22.

### Buoyant domestic demand boosts economic growth

GDP growth in 3Q rose 5.3% y/y and 2.3% q/q s.a. (revised up from the flash 5.1% y/y, 2.1% q/q). The data show the strong economic revival being driven by the buoyant domestic demand (the latter soared 8.6% y/y and 3.2% q/q).

Private consumption increased 4.7% y/y and 4.3% q/q s.a., much stronger than we had anticipated. Investments were slightly above our estimate: 9.3% y/y and 2.4% q/q. Also, the rise of inventories had strong positive impact on GDP (+3.7 pp), which seems quite odd in the period of global supply chains disruptions, which theoretically could lead to de-stocking. At the same time, net exports' impact on GDP was strongly negative (-2.7pp), amid moderate export growth (8.6% y/y) and booming imports (15.2% y/y).

### GDP growth and its components (% y/y)

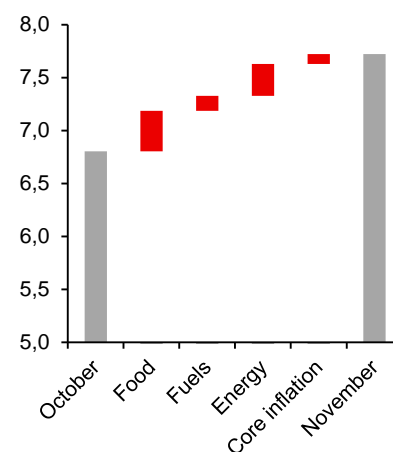
	2019	2020	3Q20	4Q20	1Q21	2Q21	3Q21
GDP	4.7	-2.5	-1.5	-2.5	-0.8	11.2	5.3
Domestic demand	3.6	-3.4	-2.6	-2.9	0.3	12.4	8.6
Total consumption	4.5	-1.1	1.0	0.0	0.3	10.3	3.7
Private consumption	4.0	-3.0	0.3	-3.1	0.1	13.1	4.7
Public consumption	6.5	4.9	3.3	8.1	1.6	3.0	0.8
Gross accumulation	0.3	-12.1	-17.3	-11.1	0.4	21.9	33.8
Fixed investment	6.1	-9.0	-7.2	-15.4	1.7	5.6	9.3
Stock building *	-1.0	-0.7	-2.1	1.1	-0.2	2.8	3.7
Net export *	1.3	0.6	1.1	0.2	-1.1	-0.3	-2.7

\* contribution to GDP growth (percentage points)

Source: GUS, Santander

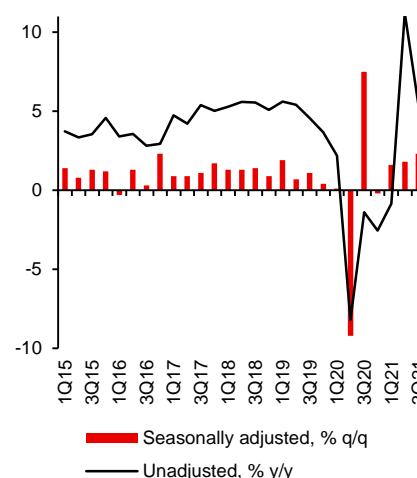
On the supply side, there was a strong rebound of value added in trade and repairs (9.4% q/q s.a.) after a disappointing drop in 2Q, and a sharp bounce in accommodation and catering (+206 q/q), following five consecutive quarters of contraction. Value added in industry rose 1.9% q/q, confirming the sector's resilience, while construction sector stagnated (which was signalled earlier by weak production figures).

### November rise of CPI inflation, % y/y



Source: GUS, Santander

### Polish GDP growth



Source: GUS, Santander

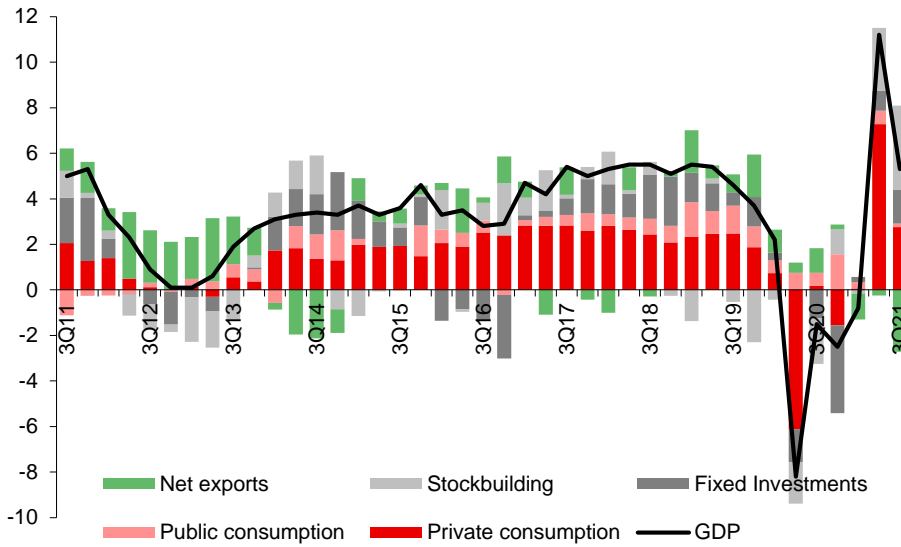
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The GDP data showed that the economy was on strong recovery path in 3Q, fuelled mainly by the domestic demand. Together with the recent monthly data on real activity in October, they allow to be very optimistic about 2021 GDP outcome: we see the room to lift estimates for this year to 5.4%, at least.

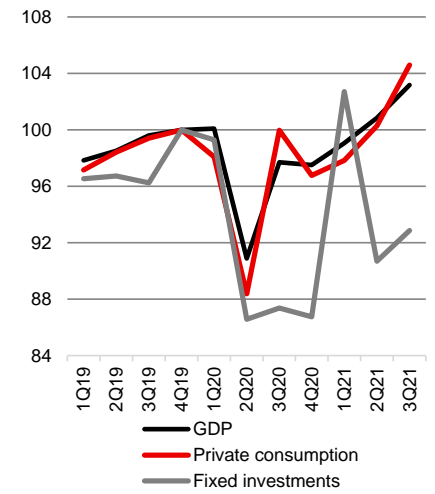
The outlook for 2022 still does not look bad, however there are three main risk factors, which will may slow economic expansion: (1) potential delay or freeze of EU funds if the rule of law conflict is not resolved, (2) implications of the new coronavirus mutation(s), (3) impact of further interest rate hikes needed to contain inflation.

**GDP growth breakdown, demand side (% y/y)**



Source: GUS, Santander

**Level of GDP and main components, 4Q19=100**



Source: GUS, Santander

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