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Economic Comment

Domestic demand is fuelling GDP growth

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GDP growth in 4Q rose 7.3% y/y and 1.7% q/q s.a., in line with the flash release. The data confirmed our calculations based on the earlier official full-year GDP estimates that the largest growth contributor were inventory changes while private consumption was a disappointment. The data indicate a continuation of strong economic rebound and dynamic growth at the turn of 2021/2022. The Russian attack on Ukraine in late February means however a deterioration of Polish GDP outlook, mainly due to the likely collapse of exports to Russia and Ukraine (together worth some 3% of Polish GDP). On the other hand, the war will likely lead to higher inflation. Currently we think the MPC will continue to raise interest rates (by 50bp at the March meeting), but the next comments by the members will be key in this respect.

GDP growth in 4Q rose 7.3% y/y and 1.7% q/q s.a. (same values as in the flash release). The data mean a continuation of strong economic recovery fuelled by the domestic demand. In line with our calculations based on the earlier official full-year GDP estimates, the largest contributor to economic growth were inventory changes, adding 4.2 percentage points to GDP. Net exports stole 3.2pp from growth – the most since 2007. Exports rose by 6.0% y/y and imports by 13.2% y/y.

Domestic demand rose by 11.2% y/y and 2.5% q/q s.a., and, apart from inventories, its growth was also based on strong investments, up 11.7% y/y and 2.9% q/q s.a. Detailed construction data revealed growing outlays on roads, which in our view suggests stronger recovery of public investments. On the other hand private consumption result is a disappointment at 7.9% y/y and -1.5% q/q s.a. in 4Q inflation got substantially higher while consumer sentiment indexes fell. It is possible that these two factors may explain the weakness of private consumption. However, it is important to note that other data regarding consumption, e.g. retail sales or turnover in retail trade, did not indicate tendency for such weakness.

On the supply side, industrial data were quite strong (+14.2% y/y, +3.8% q/q s.a.) and so was transport (16.5% y/y, 3.3% q/q s.a.) and construction (5.8% y/y, 0.9% q/q s.a.). Retail trade looked worse (7.7% y/y, -4.1% q/q, s.a.) which seems to be in line with weaker consumption, but recently GUS data for this category are volatile and we are unsure about the credibility of this signal.

Data confirm that the Polish economy was expanding at a fast rate at the turn of 2021 and 2022. Russia's attack on Ukraine at the end of February means a deterioration of domestic economic outlook, mostly due to a very probable slump in Polish exports to Russia and Ukraine (it amounts to about 3% of domestic GDP). On the other hand, war is likely to trigger higher inflation. Currently we think that the MPC will continue with interest rate hikes (50bp at the March meeting).

GDP growth and its components (% y/y)

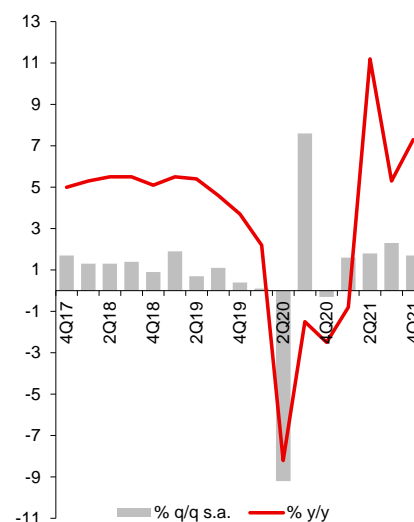
	2020	2021	4Q20	1Q21	2Q21	3Q21	4Q21
GDP	-2.5	5.7	-2.5	-0.8	11.2	5.3	7.3
Domestic demand	-3.4	8.2	-2.9	0.3	12.4	8.6	11.2
Total consumption	-1.1	4.8	0.0	0.3	10.3	3.7	5.3
Private consumption	-3.0	6.2	-3.1	0.1	13.1	4.7	7.9
Public consumption	4.9	1.1	8.1	1.6	3.0	0.8	-0.5
Gross accumulation	-12.1	23.1	-11.1	0.4	21.9	33.8	30.0
Fixed investment	-9.0	7.9	-15.4	1.7	5.6	9.3	11.7
Stock building *	-0.7	2.7	1.1	-0.2	2.8	3.7	4.2
Net export *	0.6	-1.9	0.2	-1.1	-0.3	-2.7	-3.2

* contribution to GDP growth (percentage points)

Source: GUS, Santander

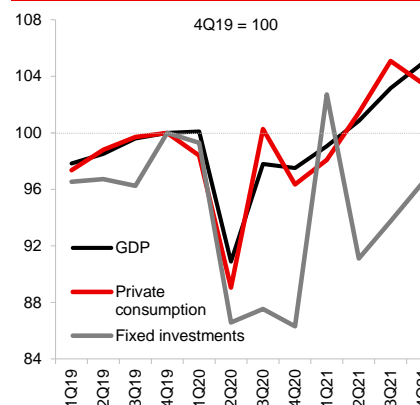
GDP growth breakdown, demand side (% y/y)

Polish GDP growth



Source: GUS, Santander

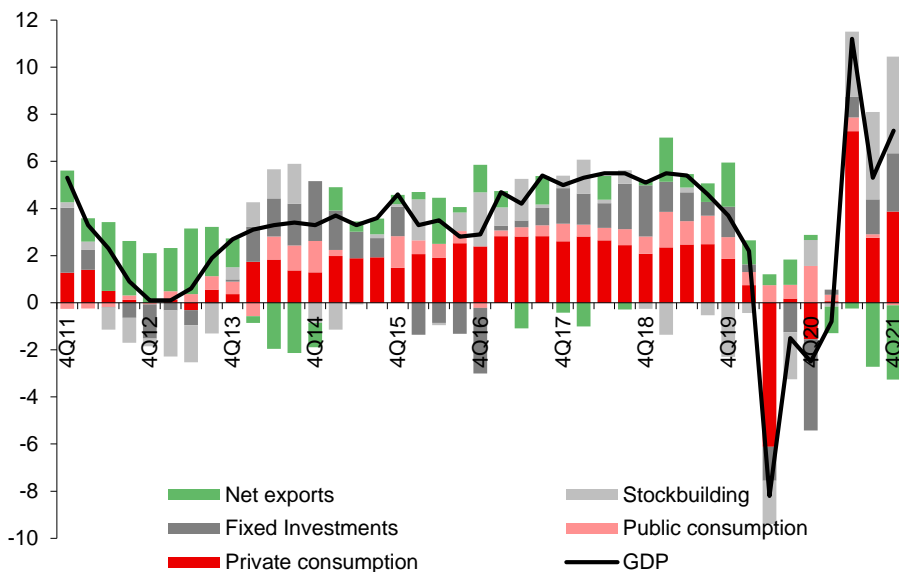
Level of GDP and main components, seasonally adjusted data



Source: GUS, Santander

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Source: GUS, Santander

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