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A CEIC Insights Report

Poland Economy in a Snapshot - Q1 2022

A CEIC Insights Report

Poland Economy in a Snapshot

Poland Economy in a Snapshot is a quarterly publication produced by the CEIC Macroeconomic Research Team. The report is designed to provide a comprehensive, albeit concise overview of the current economic and financial developments. The Poland Economy in a Snapshot report is produced using data from CEIC's Global Database and World Trend Plus Database.

Key Highlights

Real GDP: 7.3% y/y

7.7%
Headline Inflation

USD -3.7bn
Trade Balance

PLN -18bn
Fiscal Balance

12.9%
Industrial Production

5.4%
Unemployment Rate

2.75% p.a.
Policy Rate, February 2022

Summary

According to the preliminary, or flash estimate for Q4 2021, GDP increased on a real terms basis by a seasonally adjusted 1.7% q/q following quarterly rises of 1.6%, 1.8% and 2.3% in Q1, Q2 and Q3 respectively. This led to an unadjusted growth rate of 7.3% y/y in Q4, following a 5.3% y/y rise in Q3, and to year average growth of 5.7% following a 2.5% contraction in 2020 caused by the pandemic.

The industrial production index (IPI) ended the year on a strong note, rising by an unadjusted 7.6% y/y in October, 14.9% y/y in November and 16.65% y/y in December, with large increases in the monthly seasonally adjusted index in October and November, of 1.8% m/m and 6.1% m/m respectively, outweighing a marginal fall of 0.2% m/m in December.

Consumer demand remained high in Q4 2021, according to the real retail sales index, which rose by 6.9% y/y, 12.1% y/y and 8% y/y in each successive month, despite the steady erosion of consumer confidence which peaked in September and fell through to January 2022.

The registered unemployment rate declined from a peak of 6.6% in February to 5.4% in November and remained at that level in December, which matched the pre-pandemic unemployment rate recorded for March 2020. The internationally comparable Labour Force Survey measure indicates an unemployment rate of 3% for Q3 2021, based on new methodology according to the source.

The annual rate of consumer price inflation rose consistently during H2 2021, from 4.1% in June to 8% in December, according to the harmonised index of consumer prices, which meant that inflation in Poland was higher than the euro area average of 5%. Inflation based on the national consumer price index increased from 4.4% to 8.6% over the same period, and to 9.2% in January, while core inflation, excluding volatile food and energy prices, accelerated from 3.5% in June to 5.3% in December (the latest available).

The rise in inflation throughout H2 2021 persuaded the National Bank of Poland (NBP, central bank) to increase its main intervention rates again at a fifth consecutive meeting on February 8, 2022, in an attempt to put inflation back in line with the target of 2.5% plus or minus one percentage point. The NBP's monetary policy council members agreed to raise the benchmark reference rate by 50bp to 2.75 and the required reserve ratio from 2% to 3.5%.

According to the state budget figures sourced to the Ministry of Finance, Poland ran a fiscal deficit of PLN 26.3bn in 2021, narrowing from almost PLN 85bn in 2020, which had increased substantially from PLN 13.7bn in 2019 due to the extra-ordinary spending the government introduced to help individuals and businesses cope with the effects of the pandemic.

The value of merchandise (goods) exports totalled USD 26.9bn in December 2021, USD89.1bn in Q4 and USD 338.8bn for the year, rising by 25.5% y/y in 2021 as the global economy recovered from the pandemic, bolstering exports prices and volume. Merchandise imports totalled USD 29.7bn in December, USD 92.8bn in Q4 and USD 340bn in 2021 (climbing 32.7% y/y). This resulted in merchandise trade deficits of USD 2.9bn in December and USD 3.7bn in Q4, and USD 1.1bn in 2021 which compares to a large trade surplus of USD13.7bn in 2020 caused by imports compression due to the pandemic.

Poland Economy: Statistics at a Glance

Name	09/2020	12/2020	03/2021	06/2021	09/2021	12/2021
Real GDP, % y/y change	-1.50	-2.50	-0.80	11.20	5.30	7.30
Industrial Production Index, % y/y change	2.85	5.57	7.37	29.68	10.34	12.84
Real Retail Trade Turnover Index, % y/y change	5.75	3.27	3.28	12.14	8.67	11.50
Unemployment Rate, %	6.10	6.17	6.50	6.13	5.77	5.43
Consumer Price Index, % y/y change	3.03	2.83	2.73	4.47	5.47	7.73
Producer Price Index, % y/y change	-1.10	-0.17	2.47	6.43	9.43	13.33
Policy Rate, % pa	0.10	0.10	0.10	0.10	0.10	1.75
Central Government Budget Balance, USD bn	0.90	-19.38	-0.88	8.33	5.06	-18.07
Central Government Revenue, USD bn	28.15	30.49	26.83	35.31	32.57	33.40
Central Government Expenditure, USD bn	27.26	49.87	27.71	26.98	27.51	51.47
Government Debt, % of Nominal GDP	56.47	57.45	59.04	57.42	56.64	
Trade Balance, USD mn	3,992.13	4,942.16	2,762.32	2,286.77	-1,968.87	-3,509.73
Exports, % y/y change	7.89	17.50	22.20	56.50	18.00	14.32
Imports, % y/y change	2.75	12.28	20.10	63.30	28.08	26.84
Current Account Balance, USD bn	2.90	4.27	3.35	1.25	-4.17	-6.18

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Poland Databank: Real Sector
Poland Databank: Monetary and Financial Sector
Poland Databank: Fiscal Sector
Poland Databank: External Sector

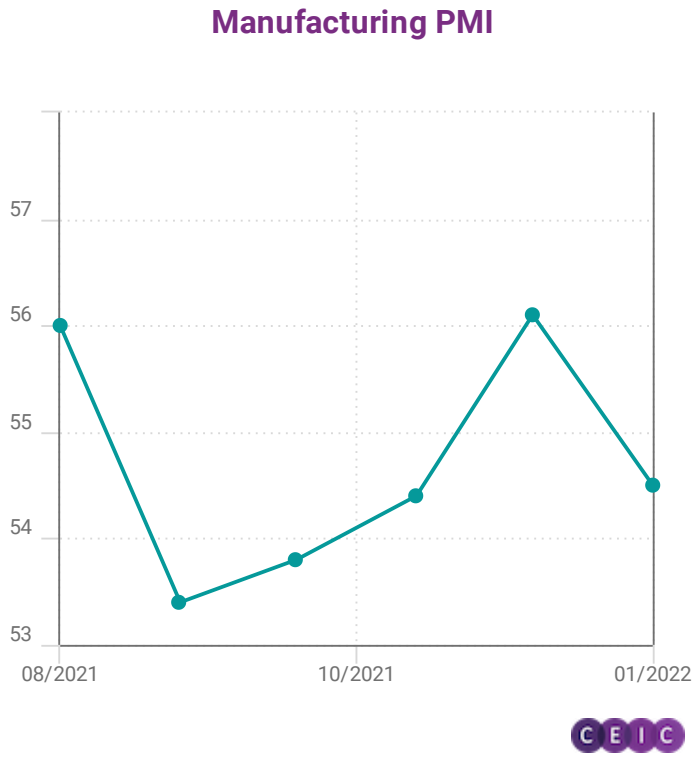
Economic Outlook

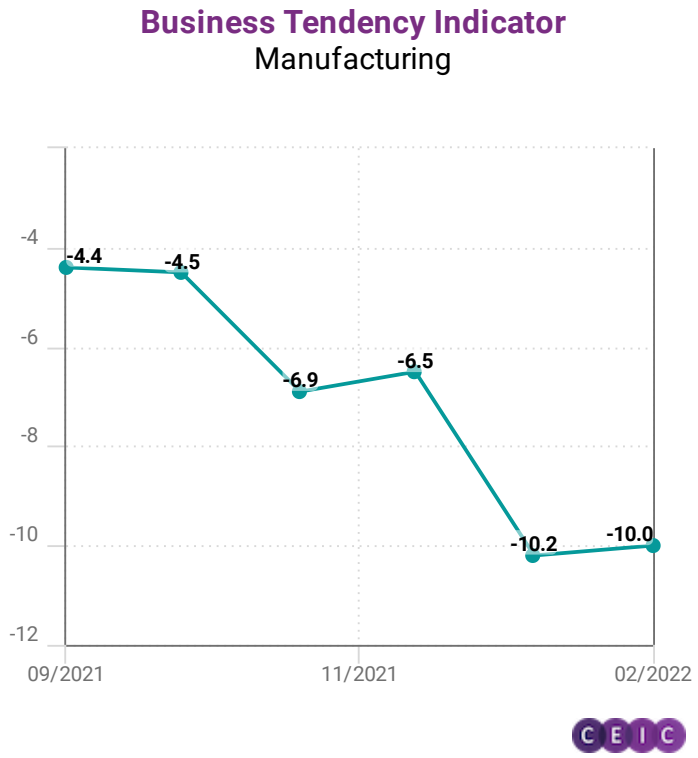
The latest economic forecasts for Poland from the European Commission's Directorate-General for Economic Affairs point to a 5.2% real terms rise in real GDP in 2022, followed by 4.4% growth in 2023. This compares to an estimated growth rate of 4.9% for 2021 at the time the forecasts were released, which turned out to be 5.7%. Inflation projections from the same source show a rise in the harmonised index of consumer prices of 5.25% in 2022 and 2.6% in 2023 after increasing by 5% in 2021. The balance of payments current account is meanwhile viewed as quite stable, with the surplus rising slightly from 2.2% of GDP in 2021 to 2.3% in 2022 and 2.6% in 2023.

Highlighting short term economic prospects, the general business tendency climate indicator for the manufacturing sector published by the Central Statistical Office has followed an uneven downward trend since improving to a seasonally-adjusted -2.1% in May 2021. This includes a sharp fall in January 2022, to -10.9% from -6.1% in December, implying increasing pessimism as the Omicron variant of COVID-19 began to spread and fairly limited restrictions were reintroduced. Both the construction, and the retail trade, trade and repair of vehicles indicators also worsened between December and January, with the former sliding from -10.7% to -12.7%, and the latter from -4.6% to -9.2%.

Reflecting the more pessimistic outlook, the IHS manufacturing purchasing managers' index (PMI) slipped to a seasonally adjusted 54.5 in January 2022 after increasing for a third successive month to 56.1 in December. It remained above 50, however, indicating expansion. The output index slipped to 52.4 in January from 55.4 in December, and the new orders index slid to 51.5 from 54.2 due to domestic orders weakening. The export orders index, by contrast, rose to 51.4 from 50.8, and employment prospects also improved, with the relevant index rising to 53.5 from 52.5.

Highlighting how cost pressures are affecting the manufacturing sector due to high and rising commodity prices caused by supply constraints, the input prices component of the PMI has remained elevated, rising to 82.5 in January from 81.9 in December, and trending slightly higher again after easing from June through to September. The output prices index has risen too, for a second successive month to 73.7 in January from 72.1 in December.





Real Sector

According to the preliminary, or flash estimate for Q4 2021, GDP increased on a real terms basis by a seasonally adjusted 1.7% q/q following quarterly rises of 1.6%, 1.8% and 2.3% in Q1, Q2 and Q3 respectively. This led to an unadjusted growth rate of 7.3% y/y in Q4, following a 5.3% y/y rise in Q3, and to year average growth of 5.7% following a 2.5% contraction in 2020 caused by the pandemic.

The industrial production index (IPI) ended the year on a strong note, rising by an unadjusted 7.6% y/y in October, 14.9% y/y in November and 16.65% y/y in December, with large increases in the monthly seasonally adjusted index in October and November, of 1.8% m/m and 6.1% m/m respectively, outweighing a marginal fall of 0.2% m/m in December.

The surge in activity in the sector relative to the previous year was driven by manufacturing output, which rose by 5.2% y/y, 12.7% y/y and 13.9% y/y in each successive month in Q4 2021 as well as huge expansions in output from the electricity, gas, steam, and air conditioning supply sector of 40.9% y/y, 44.9% y/y and 54.1% y/y respectively as the economy was back up to speed in comparison with 2020. In contrast, the IPI for the mining and quarrying industry performed less consistently, growing by 2.5% y/y in October and 3.6% y/y in November, but contracting by almost 1% y/y in December.

The output of durable consumer goods expanded by 4.3% y/y, 9.7% y/y and 7.2% y/y in each successive month in Q4 2021, with non-durable consumer goods up by 2.9% y/y, 8.1% y/y and 7.7% y/y respectively. Capital goods production declined in October by 3.6% y/y but grew by 9.9% y/y in November and 12.6% y/y in December, while the output of intermediate goods rose substantially by 9.2% y/y, 16.3% y/y and 17.6% y/y. The energy goods production category soared by 27.4% y/y, 29.7% y/y and 39.4% y/y.

Consumer demand remained high in Q4 2021, according to the real retail sales index, which rose by 6.9% y/y, 12.1% y/y and 8% y/y in each successive month, despite the steady erosion of consumer confidence which peaked in September and fell through to January 2022. Sales of textiles, clothing and footwear increased by 31.1% y/y in December, with sales of motor vehicles, motorcycles and parts down by 8.5% y/y. Sales of food, beverages and tobacco products grew by 0.9% y/y and retail sales of pharmaceuticals, cosmetics and orthopedic equipment increased by 18.8% y/y.

The wholesale trade index grew at a stronger pace than retail trade in Q4 2021, by 20.7% y/y, 27.5% y/y and 25.4% y/y in each consecutive month.

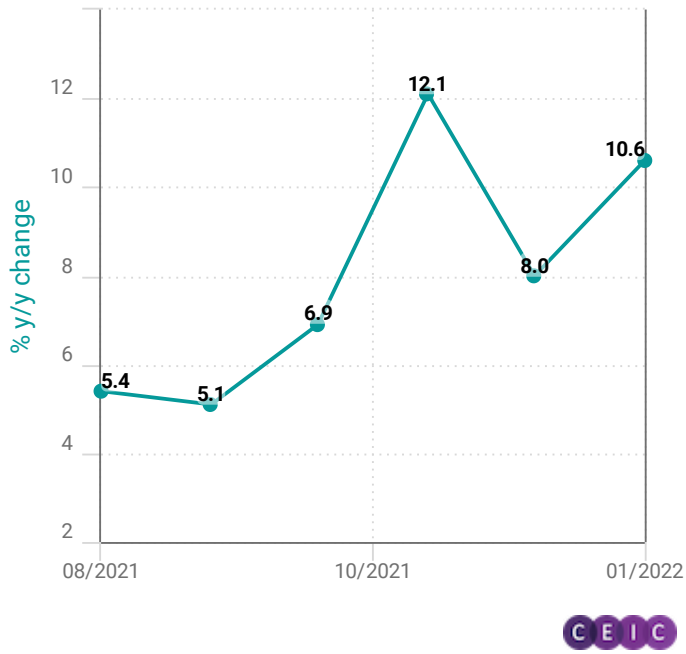
As in other parts of Europe, low borrowing rates and a strong economy have contributed to a rapid rise in house prices, with the seven cities primary market price per square metre rising by 15.6% y/y in Q4 2021 and the secondary market price up by 9.85% y/y. The number of residential dwellings completed in 2021 totalled 234,718 units, a rise of 6.3% y/y.

The growth in the economy has also led to a substantial tightening of the labour market, with the registered unemployment rate declining from a peak of 6.6% in February to 5.4% in November and then remaining at that level in December, which matched the pre-pandemic unemployment rate recorded for March 2020. The internationally comparable Labour Force Survey measure indicates an unemployment rate of 3% for Q3 2021, based on new methodology according to the source.

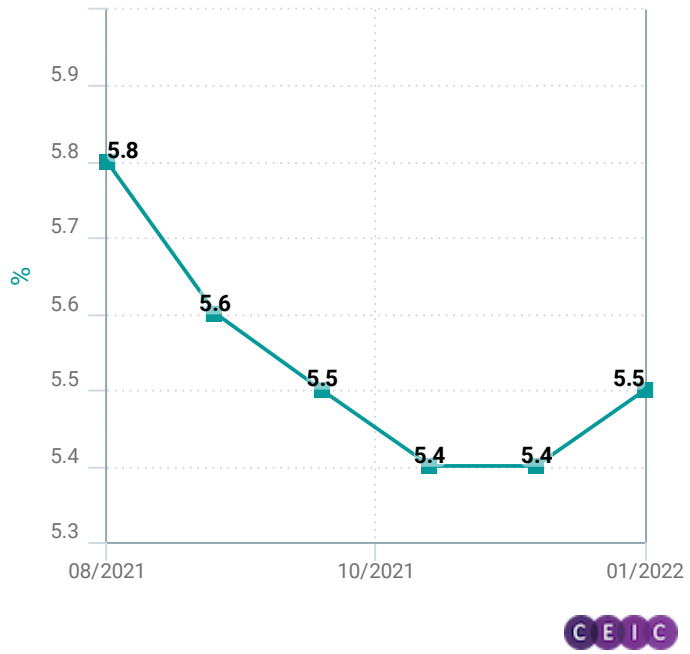
Real GDP, % y/y change

Industrial Production Index

Real Retail Sales Index



Unemployment Rate



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Monetary and Financial Sector

The annual rate of consumer price inflation rose consistently during H2 2021, from 4.1% in June to 8% in December, according to the harmonised index of consumer prices, which meant that inflation in Poland was higher than the euro area average of 5%. Inflation based on the national consumer price index increased from 4.4% to 8.6% over the same period, and to 9.2% in January, while core inflation, excluding volatile food and energy prices, accelerated from 3.5% in June to 5.3% in December (the latest available).

The high inflation rate has been largely driven by double-digit increases in transport prices, which rose by 22.7% y/y in December 2021 before moderating to a still high 17.5% y/y in January 2022. Food and non-alcoholic beverage prices (providing the largest weighting in the basket of goods and services) rose at the faster pace of 9.4% y/y in January, up from 8.6% y/y in December. Other series had yet to be updated with January figures at the time of writing.

Prices that producers face have been rising at a successively faster pace since the beginning of 2021, indicating heightened cost pressures that are likely to be passed on to consumers. The industrial production price index, which measures the growth of producers' costs, rose by 14.2% y/y in December following an increase of 13.6% y/y in November. The costs facing firms in manufacturing rose by 13.7% y/y in December, while in mining and quarrying they increased by 22.5% y/y.

In terms of money supply growth, the M2 aggregate, including cash, cheque deposit accounts and some less liquid assets that are easily converted to cash, increased by 8.8% y/y in December, down from 16.9% y/y in December 2020. The narrower measure of the money supply, M1, which comprises currency in circulation including vault cash, increased by 12.6% y/y in December, with the growth rate decelerating from 32.6% y/y in December 2020.

The rise in inflation throughout H2 2021 persuaded the National Bank of Poland (NBP, central bank) to increase its main intervention rates again at a fifth consecutive meeting on February 8, 2022, in an attempt to put inflation back in line with the target of 2.5% plus or minus one percentage point. The NBP's monetary policy council members agreed to raise the benchmark reference rate by 50bp to 2.75%. The other rates, namely the Lombard, deposit, rediscount and discount rates, were also raised by 50bp each to 3.25%, 2.25%, 2.80% and 2.85%, respectively, and the required reserve ratio was increased from 2% to 3.5%.

According to the press release from the meeting, the NBP still expects inflation pressure to subside in the long term, but with the risk of it running above target over the forecast horizon due to strong domestic demand and increases in regulated tariffs on electricity, gas and thermal energy. The NBP is therefore hinting at the possibility of additional interest rate rises to support the zloty's rate of exchange and ensure that its inflation target is met over the medium term, while also taking into account the need to ensure sustainable economic growth after the pandemic. The NBP confirmed that it may also decide to intervene in the foreign exchange market, if necessary, to achieve these aims.

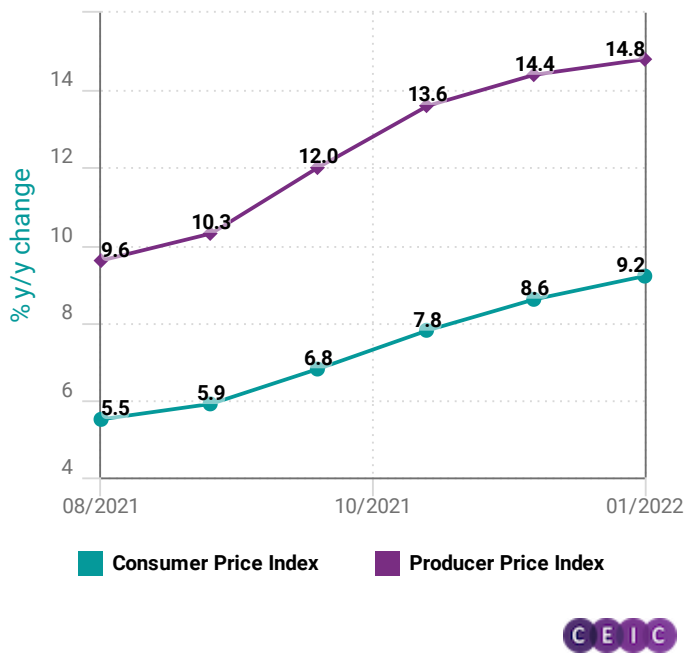
Commercial bank lending rates have increased to reflect the rise in the NBP's monetary policy rates. The average mortgage lending rate rose to 2.55% in November and 3.05% in December, while the average rate on consumer loans scaled up to 6.7% and 7% in those two months.

The financial system remained resilient in Q4 2021, with the non-performing loan (NPL) ratio continuing to fall to 5.7% in December from 6.95% at the same point in 2020. The Tier-1 capital ratio – the ratio of tier one capital to total risk-weighted assets – fell in Q3 2021, but it remained elevated at 17.95%, above the levels prevailing before the pandemic began. This suggests the banking system remains well capitalised to withstand any shocks.

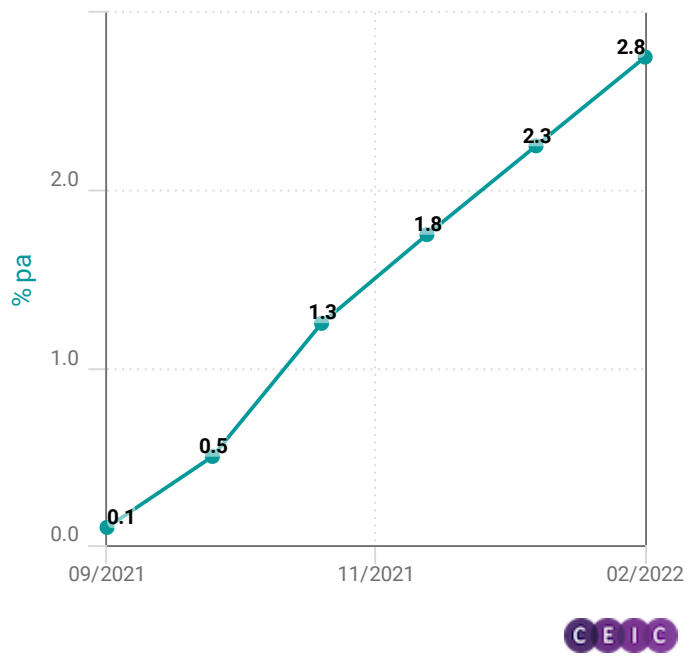
The benchmark index on the Warsaw stock exchange, the WIG30, which is the main capitalization-weighted equity market index of the 30 largest companies, rallied by 2.7% to 2,764.93 in December after a sharp fall of 8.6% in November. However, in January 2022, negative sentiment arising due to the spread of the Omicron variant of COVID-19 and growing tensions over the Russia-Ukraine crisis led to the WIG30 falling by 2.9% to 2,683.76. The WIG30 was then trading at 2,630.5 on February 14.

After depreciating from PLN 3.97 per USD at the end of October to PLN 4.12 per USD at the end of November, the central bank's decision to tighten monetary policy in December helped to stabilise the exchange rate, which appreciated to PLN 4.06 per USD at the end of the year, although it was down by almost 8% compared with the close of trading in 2020. The zloty then began to lose ground again in January, ending the month at PLN 4.11 per USD. Movements against the euro were less pronounced, with an exchange rate of PLN 4.60 per EUR prevailing at the end of January, unchanged from the end of 2021.

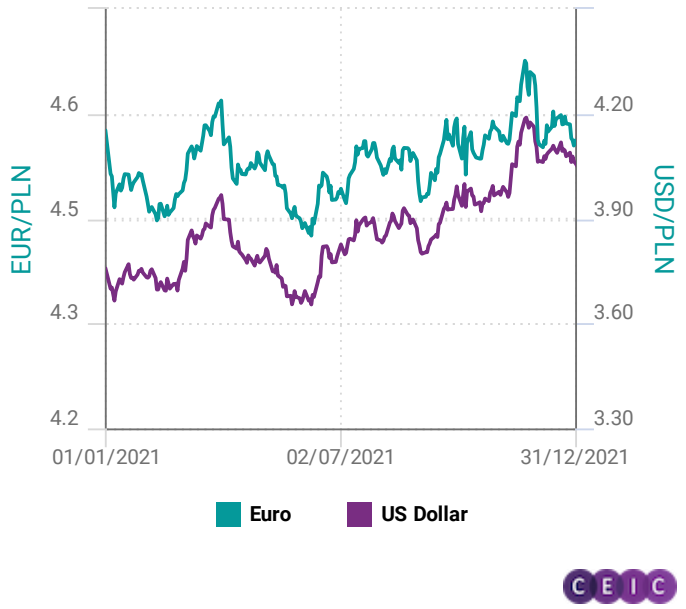
Inflation



Policy Rate



Foreign Exchange Rates



WIG30 Index

Warsaw Stock Exchange

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Fiscal Sector

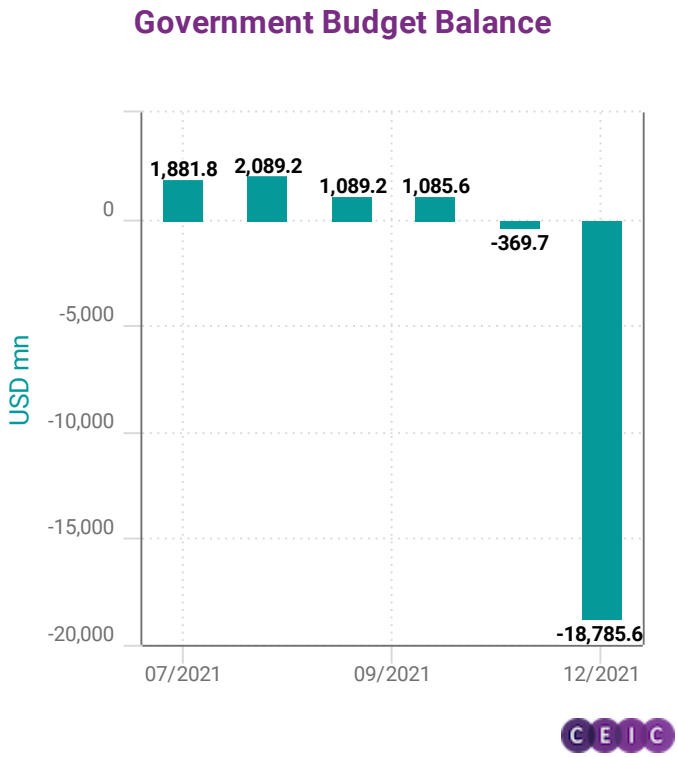
According to the state budget figures sourced to the Ministry of Finance, Poland ran a fiscal deficit of PLN 26.3bn in 2021, narrowing from almost PLN 85bn in 2020, which had increased substantially from PLN 13.7bn in 2019 due to the extra-ordinary spending the government introduced to help individuals and businesses cope with the effects of the pandemic.

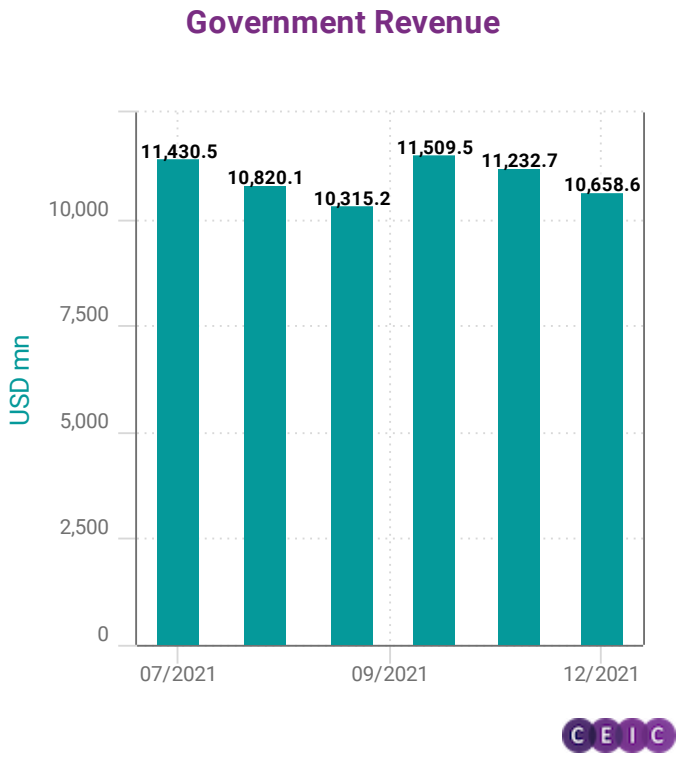
Government revenues totalled almost PLN 495bn in 2021, a rise of 17.9% y/y. Tax revenue, which accounted for more than 87.3% of total revenue, increased by 16.7% y/y to PLN 432.2bn in 2021. Revenues from value-added tax (VAT) increased by 18.9% y/y to PLN 200bn from January-November on a year-to-date basis (which are the latest available). In 2021 (full year), the revenues from direct personal taxes on individuals rose by 15.4% y/y to PLN 73.6bn, while the receipts from direct taxes on corporate entities increased by 26.9% y/y to PLN 52.4bn.

Government expenditure increased by 3.3% y/y to PLN 521.3bn in 2021 after increasing by 21.85% y/y in 2020, with spending on social security benefits declining by 23.1% y/y to almost PLN 35bn, expenditure on pension and disability allowances declined by 0.3% y/y to PLN 18.4bn, and spending on direct social benefits increased by 9.8% y/y to PLN 26.6bn. Current expenditure, which includes salaries and materials purchased for the public sector, rose by 5.6% y/y to PLN 76.3bn in January-November 2021, while spending on capital expenditure, including investments made by the government and transfers to the local government increased by 3% y/y to PLN 18.1bn over the same period.

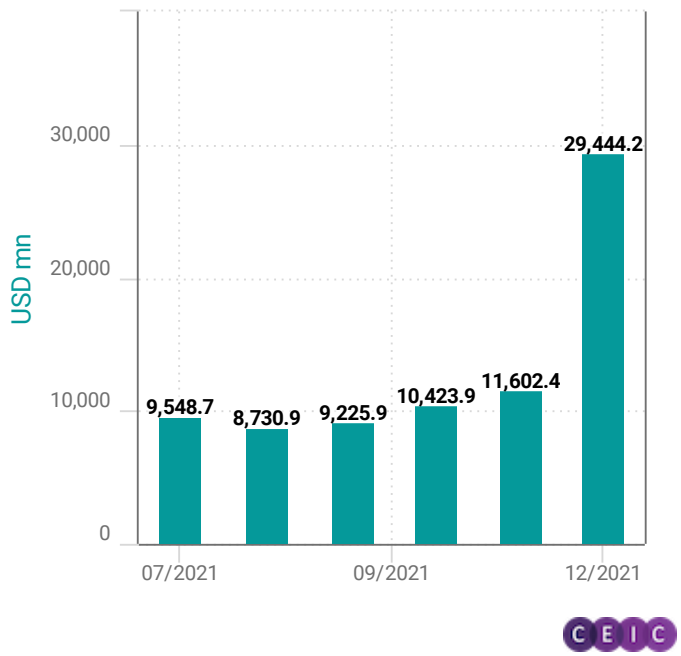
Poland's government debt declined slightly on a quarterly basis, but it remained high in Q3 2021, at USD 355bn, up by 5.1% y/y. The general government gross public debt measure was equivalent to 56.6% of nominal GDP in Q3 2021, down from 75.95% of GDP in Q1 2021.

The yield on the benchmark 10-year government bond has increased substantially since August in conjunction with the rise in inflation. As of January 2022, it had reached 4%, rising from 1.6% in August 2021 and comparing to 1.19% in January 2021.

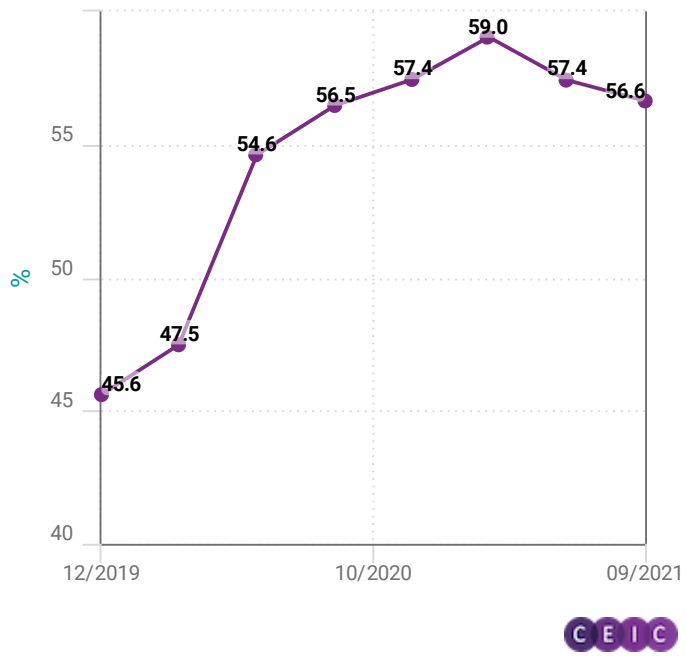




Government Expenditure



Government Debt, % of nominal GDP



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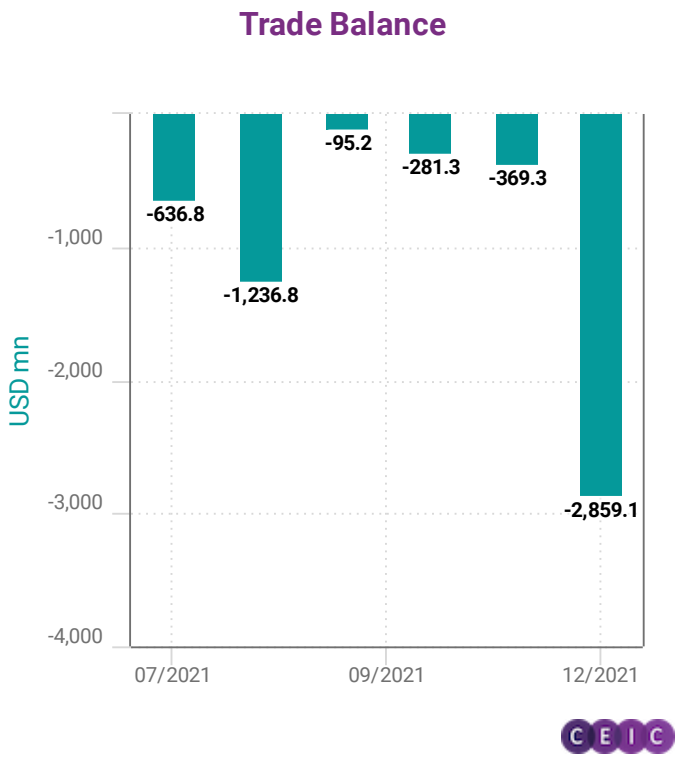
External Sector

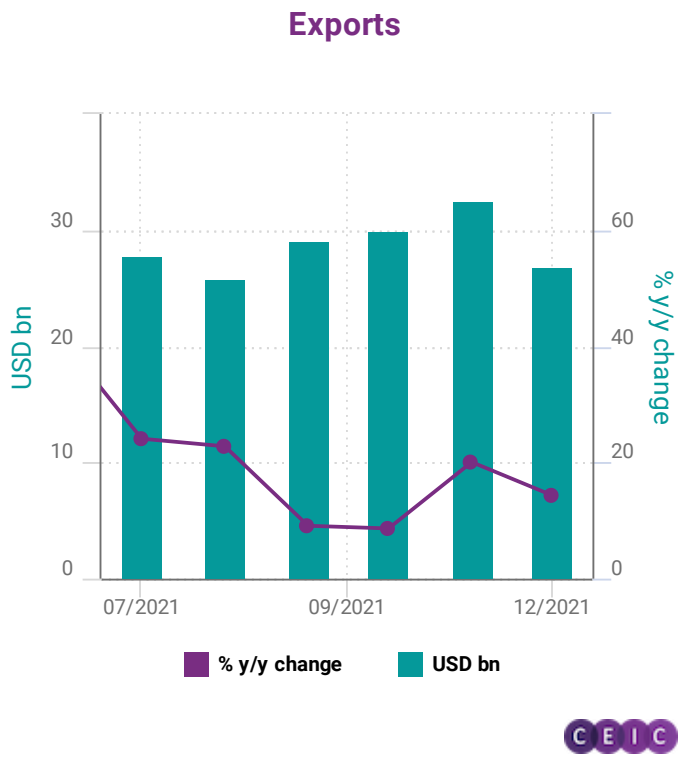
The value of merchandise (goods) exports totalled USD 26.9bn in December 2021, USD89.1bn in Q4 and USD 338.8bn for the year, rising by 25.5% y/y in 2021 as the global economy recovered from the pandemic, bolstering exports prices and volume. Merchandise imports totalled USD 29.7bn in December, USD 92.8bn in Q4 and USD 340bn in 2021 (climbing 32.7% y/y). This resulted in merchandise trade deficits of USD 2.9bn in December and USD 3.7bn in Q4, and USD 1.1bn in 2021 which compares to a large trade surplus of USD13.7bn in 2020 caused by imports compression due to the pandemic.

Exports to Germany, the main market for Polish goods, totalled USD 91.6bn in 2021, and were up by 10.8% y/y. The value of exports to Czech Republic increased by almost 13% y/y to USD 18.8bn, while those to France rose by 13.9% y/y to almost USD 18.3bn. However, exports to Great Britain (the UK excluding Northern Ireland) contracted by 0.7% y/y to USD 16.3bn, partly due to increased trade barriers following Brexit. Exports of machinery and transport equipment – Poland's largest export product category – grew by 13.4% y/y to USD 108.1bn in January-November 2021, while exports of manufactured goods increased by 19.35% y/y to USD 53.9bn over the same period.

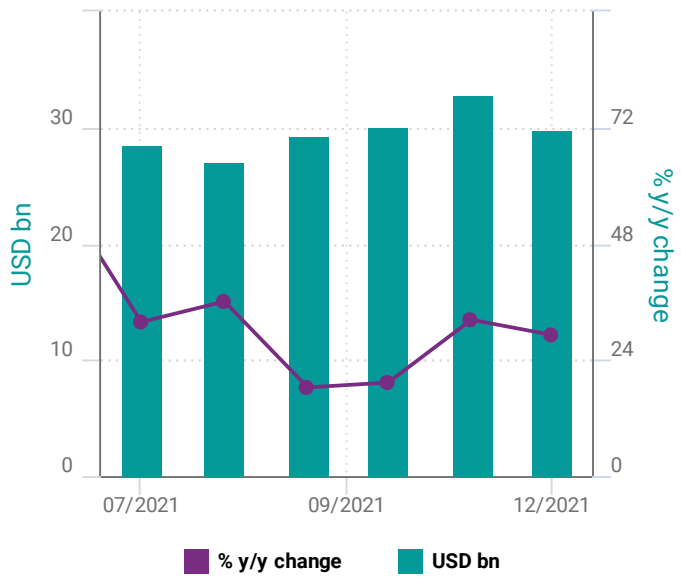
Imports from Germany, the leading source, increased by almost 13% y/y to USD 67bn in 2021, while imports from China, which is increasing its presence in the Polish market, increased by 20.3% y/y to USD 47.6bn. Other major sources of imports include Russia, totalling USD 19.1bn in 2021 (and rising by 56.1% y/y), Italy growing by 17.9% y/y to USD 16bn, and France totalling USD 10.7bn (+14.2% y/y). Imports of machinery and transport equipment increased by almost 14% y/y to USD 100.3bn in January-November 2021, while imports of manufactured goods grew by 28.35% y/y to USD 51.8bn.

Given the trade deficits in December and Q4 2021, the balance of payments current account deficit totalled USD 4.5bn for the month and USD 6.2bn for the quarter, while totalling USD 5.8bn in 2021 as a whole, compared with a surplus of USD 17.5bn in 2020. Capital account surpluses of USD 2.9bn occurred in December, and USD 4.7bn in Q4, with the capital account surplus worth USD 12.6bn in 2021, down from USD 13.8 bn in 2020. Direct investment assets (made by Polish residents) totalled USD 8.3bn in 2021, while direct investment liabilities (inbound investment from foreign sources) were worth USD 27.7bn.

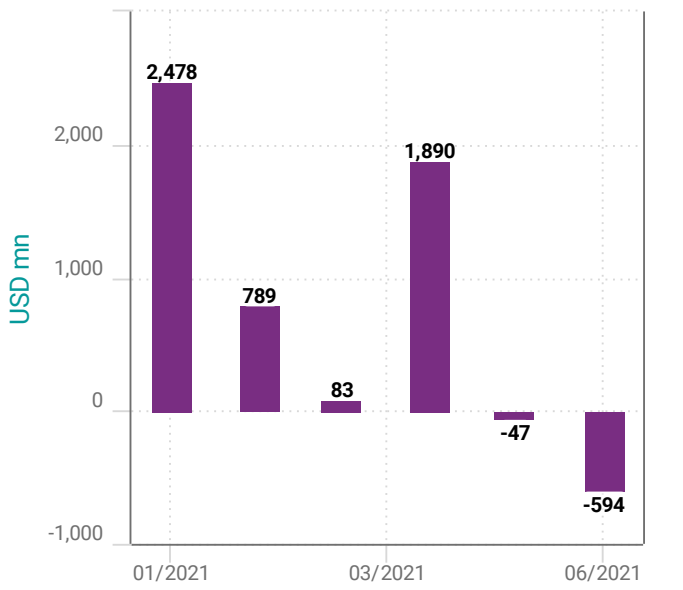




Imports



Current Account Balance



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