

New Europe Economics & Strategy

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Focus Notes: Poland

Q2-2010 GDP growth up by a higher than expected 3.5% yoy

- ✓ Polish GDP grew by **3.5% yoy in Q2-10** accelerated from 3.0% yoy in Q1-10. On a **quarter-on-quarter basis, growth was strong as well**, coming in at **1.1% qoq** from a revised 0.7% rate in the prior quarter. Higher **domestic demand growth driven** by stronger private consumption and recovering investments contributed some 3.9ppts to overall GDP growth in Q2. Further, as import growth outpaced export growth, for the first time since the start of 2009, net exports contributed negatively in the second quarter. Nevertheless, the dynamics of Polish exports were impressive in the second quarter, thanks, primarily, to a vibrant industrial recovery in Germany (Poland's main trading partner) and the weaker zloty in May and June. Exports grew by 5.8% qoq (17% yoy), while imports were also up by 1.5% qoq (18.2% yoy). **Private consumption expanded 3.0% yoy in Q2 vs. 2.2% yoy in Q1**. Hence, the Polish consumer continues to hold up quite well. On the other hand, investments continue to weigh on GDP growth but to a less extent. Gross fixed capital formation declined by 1.7% yoy in Q2 compared to the 12.4% yoy drop recorded in Q1-10.
- ✓ With respect to the most recent indicators of consumer vigour, **July retail sales stood at 3.9% yoy** vs. 6.4% yoy recorded in June. Annual **wage growth fell back to 2.1% yoy in July**, from 3.5% yoy in June. These readings possibly suggest a less impressive private consumption growth reading in Q3, relative to that in the second quarter. On a more positive note, **unemployment** seems to have peaked earlier this year; coming in at **11.4% in July**, down from 11.6% in the prior month and 13% recorded in February.
- ✓ **Industrial production in July was less strong than expected**, but continued to expand at a double-digit pace (+**10.4% yoy** vs. 14.5% yoy in the prior month). In a similar vein, the **August PMI** survey showed continuing expansion in the domestic manufacturing sector, with the headline reading standing at **53.8**.

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- ✓ In late August, the **National Bank of Poland (NBP) kept its policy interest rate unchanged at 3.50% for the 14th month in a row**; its last change was a 25bps in June 2009. In the press release following the meeting of the MPC, it was noted that conflicting forces are at play with regard to the inflation outlook. The council mentioned that recent data point to slowing growth in some of the largest economies, specifically the U.S. The council also noted that the recent strengthening of the Polish zloty attributed to tensions alleviations in the financial markets which have favoured the inflow of capital to emerging economies. Overall, the statement **provided a more balanced view on the outlook of monetary policy**, disappointing market hawks looking for more concrete hints for an imminent rate hike. Poland enjoys positive real interest rates since February 2010 and so there is no rush to raise policy rates until inflation embarks on a more sustained uptrend. Moreover, the NBP is an inflation targeting central bank and as such, inflation increases will lead to interest rate increases.

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