

Consumption drives Polish recovery; investment declines

The StatOffice revised its 1Q24 GDP estimate to 2.0% year-on-year from 1.9% earlier. The economic rebound is led by private and public consumption (up by 4.6% YoY and 10.9% YoY, respectively). Fixed investment shrank by 1.8% YoY following buoyant growth on the back of public investment in 2023. The drag from inventory adjustment eased a bit



Poland's current account position continues to remain solid

The Polish statistical office revised its preliminary estimate of 1Q24 GDP growth to 2.0% YoY from 1.9% YoY reported initially (1.0% YoY in 4Q23). The seasonally-adjusted data points to 0.5% quarter-on-quarter growth, after 0.0% QoQ a quarter earlier.

The composition of GDP growth was also unveiled.

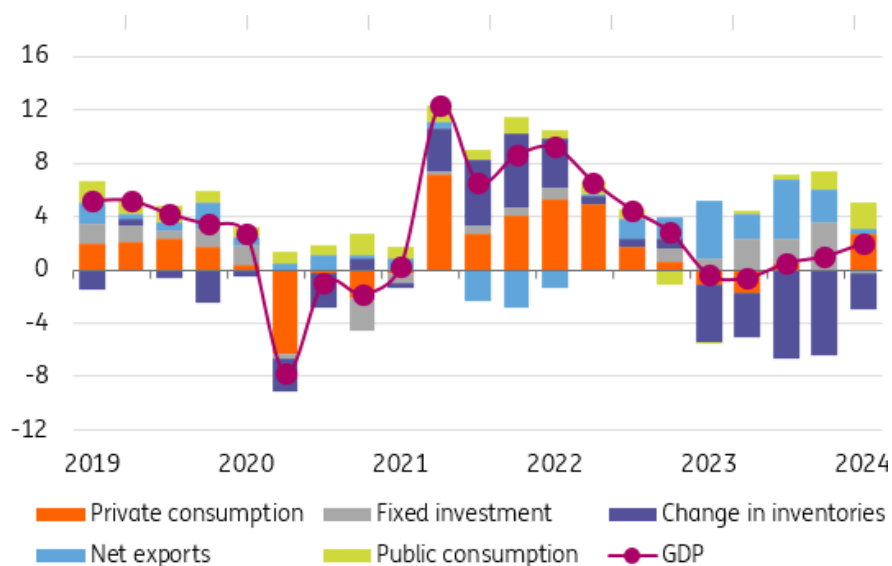
- On the expenditure side, household consumption jumped by 4.6% YoY (0.0% YoY in 4Q23), public consumption increased by 10.9% YoY (7.5% YoY in 4Q23) and fixed investment declined by 1.8% YoY (vs +15.8% YoY in 4Q23).
- The change in inventories subtracted 2.8 percentage points from the 1Q24 annual GDP

growth rate.

- Foreign trade added 0.4 percentage points.
- On the supply side, value added in manufacturing increased by 0.2% YoY (2.1% YoY in 4Q23), construction fell by 8.9% YoY (+5.7% YoY in 4Q23) and trade and repair rose by 4.4% YoY (0.2% YoY).

Poland's GDP composition

%YoY; percentage points



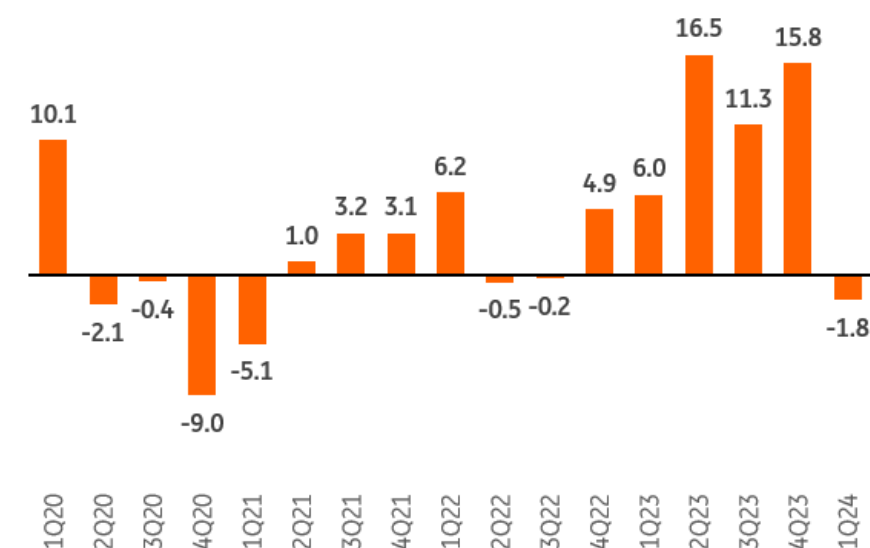
Source: GUS, ING.

The sources of GDP growth in 1Q24 did not surprise us, nor did they present a very optimistic picture of the economy. As expected, the recovery is primarily driven by a gradual rebound in consumption. Despite the higher propensity of households to save, the buoyant growth in real disposable income is translating into an increase in purchasing activity. Robust growth of labour income (double-digit growth in nominal wages and salaries) and proceeds from social benefits (high indexation of pensions and child benefits, among others) are supporting consumers. This is accompanied by a marked fall in inflation from very high levels last year. There was an impressive increase in public consumption (10.9% YoY) boosted, among other things, by an increase in public sector wages.

We note without satisfaction that our forecast of a decline in fixed investment in 1Q24 has indeed materialised. Investment developments were closely linked to the completion of projects financed by the 2014-20 EU financial perspective and the slow start of projects from the 2021-27 perspective. This factor strongly boosted public investment in 2023. Last year, public investment was as high as 5.0% of GDP (the highest since 2011), which is unlikely to happen again in 2024, especially given the delay of Poland's Recovery and Resilience Plan (RRF). Last year's investment boom (up by 13.1% in 2023 overall and 15.8% YoY in 4Q23) was about two-thirds driven by public investment. However, business investment (apart from a few large investments including state-owned) was weak, especially in the small and medium-sized business sectors. The 1Q24 data exposed this low business investment. We expect investment activity to improve in 2H24 and accelerate markedly in 2025.

Public sector led investment boom came to an end

Fixed investment, %YoY



Source: GUS.

Today's data indicates that the Polish economy should achieve economic growth of around 3% this year, with growth mainly based on one engine: consumption. In the context of the outlook for monetary policy, this is not an optimal growth structure, as it may translate into renewed inflationary pressure (easier acceptance of price increases by consumers). Low business investment, despite very high wage growth, means that companies have taken little action to compensate for rising labour costs or the falling availability of workers. In such conditions, the propensity to pass on labour costs to prices will be high. The Polish economy is in desperate need of business investment. We expect interest rates to remain unchanged until the end of 2024, and the cycle of rate cuts will not start until 2025 when we think it will be limited in scale.

Authors

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Adam Antoniak

Senior Economist

adam.antoniak@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING

does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.