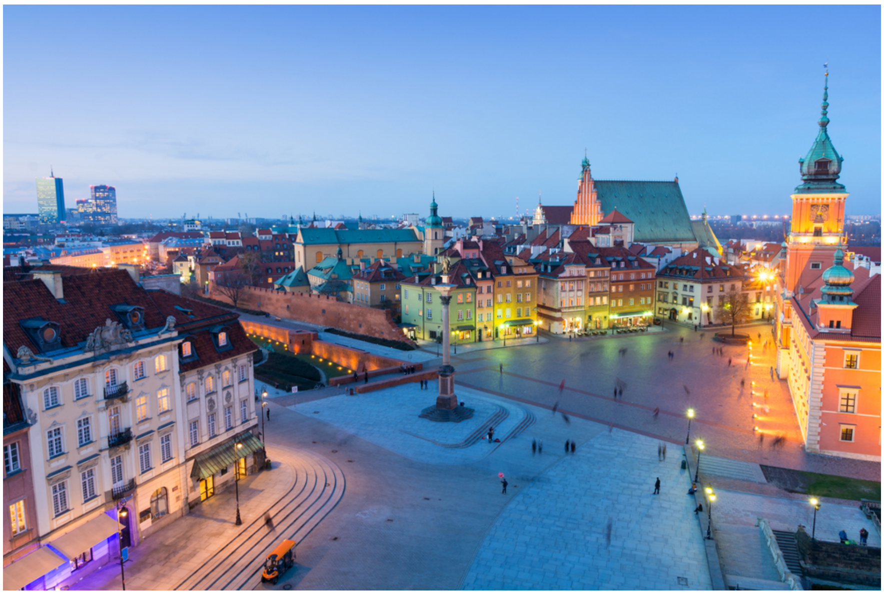
Poland: Growth above 5% but inflation still muted

GDP posted another strong increase in the second quarter – 5.1% year-on-year. But this solid level of activity is still not creating inflationary pressures. As a result, the central bank will be able to reiterate its guidance and signal no rate change until the end of 2020



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GDP: Another reading above 5% but a slowdown is coming

The initial reading of 2Q GDP showed a deceleration from 5.2% to 5.1% YoY, in line with the consensus. After calendar adjustments, annual growth remained flat at 5%. Based on monthly data, we think domestic demand was the key driver, led by private consumption (decelerating from 4.8 to 4.5%YoY) and recovering investments (from 8.1% YoY to 10% YoY). The headline figure and yesterday's Balance of Payments data suggest the contribution of net exports only marginally exceeded 0pp.

4.4%

GDP (YoY)

ING's forecast for 2H 2018

Looking ahead, we expect GDP growth to moderate to 4.4% YoY in 2H18. Domestic demand is unlikely to continue at the present level. Both private consumption and investment should decelerate, reflecting statistical effects, a smaller increase in household disposable income and increasing economic uncertainty. Still, the major risk to our forecast is related to external demand and eurozone sentiment.

CPI: Stable core inflation, no demand driven pressures

The final CPI reading for July confirmed the flash estimate at 2% YoY, as an increase in fuel prices was offset by a deceleration in the food and beverages category. Based on the official GUS comments, we estimate core inflation was flat at 0.6% YoY.

0.6%

Core inflation (YoY)

ING estimate for July

Lower than expected

The major changes in core prices were related to categories, which we accuse of methodological problems. Clothing and footwear prices dropped below the typical seasonal pattern – both monthly and annual readings in this category remain far below other EU countries. GUS attempted to correct this problem in March, yet results so far are mixed. On the other hand, package holiday prices posted an increase. This category also presents different trends compared to the region, despite similar foreign trip destinations. Overall demand-driven pressures were low e.g. the index of services prices remained flat at 1.4% YoY.

Looking ahead, we expect the CPI to fall below the central bank's target boundaries. In 4Q, we forecast that the annual index should oscillate in the range of 1-1.5% YoY.

MPC: No arguments for earlier tightening

Today's data remains neutral from the Monetary Policy Council's (MPC) perspective. We expect NBP Governor Adam Glapinski to reiterate comments that no rate change is foreseen in the forecast horizon until the end of 2020. A worsening of the eurozone economic outlook and potential spillovers from the Turkey crisis in the euro area should reduce expectations for rate hikes from the NBP (following a similar change with the ECB's policy expectations).