

Poland: GDP slowed in 3Q amid lacklustre consumption

GDP growth slowed in the third quarter to 3.9% year-on-year from 4.6%. Consumption and investments decelerated, but net exports put in a strong contribution. CPI Inflation remained close to the National Bank of Poland's target in November



Shoppers at the Poznan City mall in Poland

GDP structure

Household spending remained the key growth driver in 3Q, rising by 3.9% YoY (down from 4.4% in the second quarter). An extension of the 500+ child benefit programme had a limited impact on spending. More demand might be seen in the fourth quarter (as the benefits were paid out only partially in 3Q), but data on deposits suggests increased savings. In 2016-17 the introduction of this benefit (for second and further children) had a stronger impact on consumption. Benefits were paid out to larger, less affluent families. Now benefits are paid for the first child as well.

Investment growth slowed to 4.7% YoY from 9.1%. This reflects weaker public outlays, e.g. by local governments, which lost revenue after the Personal Income Tax rate cut. Private investments slowed to 5% YoY from a robust 14.3% in 1Q. A recovery in private investments was delayed in this cycle, with internal and external uncertainty apparently capping spending.

Net trade added 0.8 percentage points to GDP growth. Typically during economic slowdowns in Germany, Polish exports outpace imports, which is likely because Polish products are more price-competitive. Moreover, internal demand in the euro area remains strong in this cycle, helping central and eastern European exporters. In addition, imports have been capped by only moderate internal demand in Poland. Still, the manufacturing slump in Germany has had a negative impact – value added in industry slowed to 3.4% YoY from 4.4%.

We expect 2019 GDP growth at 4.2% YoY and 3.3% next year. Our 2020 forecasts are below both the National Bank of Poland's estimates and the consensus, supporting our call of flat interest rates despite an expected rise in consumer prices next year.

Weaker consumption and investments is positive for Polish government bonds. Deposit growth significantly outpaced credits in 3Q and this trend should persist in the remainder of the year. Hence, local banks face over-liquidity and are forced to buy local debt to avoid the asset tax. We estimate that their net purchases of POLGBs next year will be higher than net issuance (we estimate at PLN15 billion).

CPI

According to the flash reading, CPI increased in November to 2.6% YoY from 2.5%, in line with the market consensus. The increase was related mainly to food prices. We estimate core inflation increased to 2.5% YoY from 2.4%.

We forecast that today's reading is the beginning of a new upward trend in inflation. The December figure should be around 3% YoY as base effects suggest an increase in fuel prices and food prices have stabilised at a stronger level. Core inflation is expected to increase slightly to 2.6% YoY.

We expect CPI to peak in 1Q around 3.5% YoY. Core inflation should remain a major contributor, fuelled by demand pressures and an increase in labour and energy costs for enterprises. A strong hike in the alcohol and tobacco excise tax should add another 0.3 percentage points to the headline rate. The biggest uncertainty is related to energy prices for households – so far there has been no legislation regarding prices in 2020, but the government has said it will freeze prices at the 2019 level.

Inflation should return to the central bank target (2.5% YoY) in the second half of 2020 due to a lower contribution from food prices. The growth structure should rely solely on core inflation. Such a situation suggests there is a risk of overshooting the inflation target's upper band (CPI above 3.5% YoY) in the event of external or domestic supply shocks (e.g. weaker crops, disruptions on the global oil markets).

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@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 www.ing.com.