

## Poland: Goldilocks economy, GDP above 5% in 1Q

1Q18 GDP maintained solid dynamics despite the slowdown in Central and Eastern European countries and the Eurozone. But despite the robust expansion, there are no signs of core inflation increasing



Source: Flickr

**5.1%** 1Q18 GDP  
YoY

Better than expected

According to the flash estimate, Polish 1Q18 GDP remained stable at 5.1% year on year which was above market consensus expectations at 4.8%.

The underlying growth structure will be published at the end of the month. But again, we expect the key driver to be domestic demand with private consumption dynamics close to 5%YoY and double-digit investment growth (12%YoY vs. 5.4%YoY in 4Q17 after a strong downward revision).

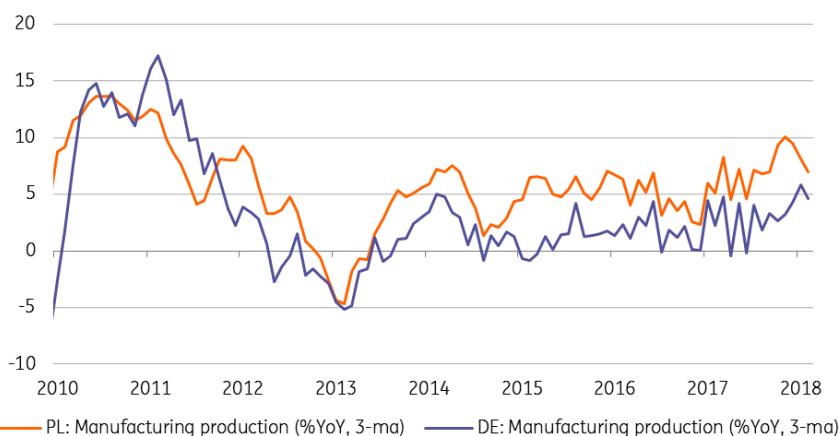
On the other hand contribution of net export was much less negative in comparison to our expectations.

*Given the solid activity, an absence of core inflation pickup and weakening of inflation expectations across the major business sector, the central bank should reiterate that no change in rates is required until 2020*

Looking ahead we expect growth moderation in the forthcoming quarters with 2Q18 reading close to 4.6%YoY and 4%YoY average dynamics in 2H18.

The statistical effects will set consumption trajectory lower. Also, investments are unlikely to take growth higher than 10%YoY. The major short-term risk for Polish activity is worsening of sentiment amongst major trading partners especially Germany. Given simultaneous import increase alongside investment spending and cloudy export outlook, external demand is likely to contribute negatively to final dynamics.

## Major risks are related to export and demand from Germany



Source: GUS, Destatis

0.6

Core inflation (%YoY)

ING estimate for April

As expected

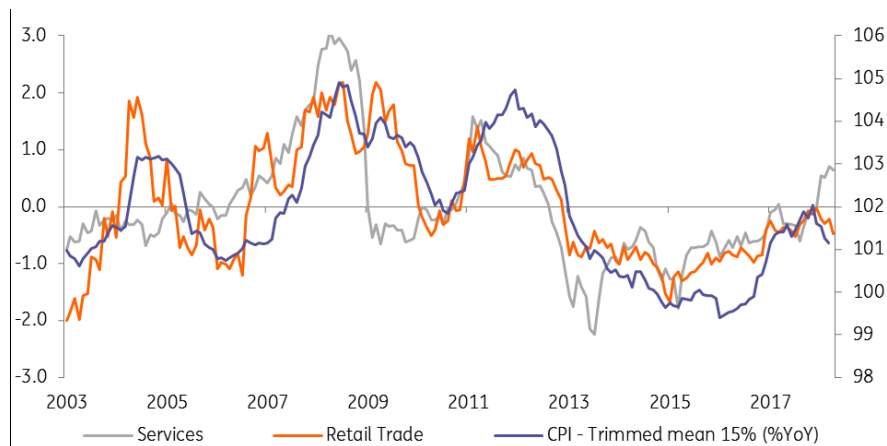
The GUS also published a final estimate of April CPI dynamics.

Headline reading was confirmed at 1.6%YoY. Based on published data we estimate core inflation at 0.6%YoY (0,1pp lower comparing to March). The major negative impact came from financial and

insurance services' prices (respectively at -14.3%YoY and -5.5%YoY). Despite robust wage growth, labour dependent categories failed to meaningfully increase.

As a result, total services dynamics came in at 1.7%YoY, close to the headline figure and likely much below the central bank's expectations.

## Business inflation expectations diminished



Source: GUS, NBP

Given the solid activity, an absence of core inflation pickup and weakening of inflation expectations across the major business sector, the central bank should reiterate that no change in rates is required until 2020. The central bank governor Adam Glapinski is likely to highlight the probability of hikes after forward guidance expiration diminished compared to the previous month.