

## Sound GDP growth in Poland, and the outlook remains positive

An acceleration in investments in the first quarter of 2019 helped balance Poland's GDP structure. We're expecting a consumption boom in the coming months as pre-election social benefits' promises kick in



Source: Shutterstock

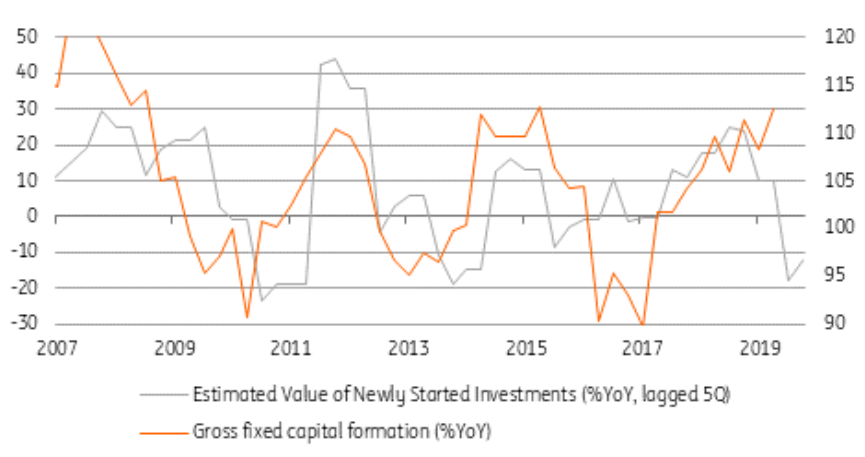
**4.7%** Polish GDP, 1Q  
Year-on-Year

### 1Q GDP structure:

Polish GDP in the first quarter of 2019 decelerated only marginally to 4.7% year-on-year from 4.9% in the final quarter of last year. The figure was above the flash estimate of 4.6%. The growth structure became more balanced. Private consumption dynamics decelerated from 4.2% to 3.9%YoY, but a positive surprise came from investments, which grew by 12.6%YoY from 8.2%. The net export contribution was positive (0.7pp), while inventories created a major drag (-1.1pp).

The main driver, suggested in information from the statistical office, was private outlays both in larger and smaller enterprises. We worry whether this is sustainable growth – the value of newly started investments (see the chart below) calls for much more subdued growth in the coming quarters. Secondly, a strong increase in 1Q may be related to one-offs.

## Investments were sound in 1Q, but the outlook is gloomy



Source: GUS

## Growth outlook:

The April data and our May estimate suggest the Polish economy should maintain solid growth in the second quarter. We expect a modest deceleration to 4.5%YoY. Investment outlays are likely to decelerate, and the net export contribution should be negative. However, we expect a stronger increase in private consumption in 2Q, but mainly in the second half of the year.

We expect full year GDP figures to come in around 4.5%YoY, so the slowdown from the robust 2017-2018 figures, when GDP grew by 4.9 and 5.1%YoY respectively, should be limited. The main driver in the coming quarters should again be consumption, which should reaccelerate to about 5%YoY in 2H19. The delivery of the pre-election social benefits (i.e. the extension of child benefits to the first child) should come in October and this transfer should increase the wage bill growth by approximately 3pp in the 4Q (to 9.5%YoY from 6.7%YoY).

Secondly, we think the Polish manufacturing sector can remain resilient even in the face of a slowdown in Germany or the wider eurozone. Our estimates suggest the main driver of production in Poland is domestic demand in Germany and the eurozone, rather than the condition of these countries' manufacturing sectors.

We think the generous wage hikes and possible fiscal easing should hold German domestic demand at a sound level. That will sustain the robust growth of Polish production and also support Polish GDP.

## Market implications:

Poland should be an outperformer as far as GDP is concerned compared with the wider CEE and eurozone, which is positive for its currency, PLN. As for interest rates expectations, so far the pessimism regarding external growth more than overshadows strong local GDP growth and the outlook of moderate CPI increases.

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