

## Solid GDP growth in Poland; a rise in core inflation won't bother the central bank

A likely improvement in net exports helps Polish GDP beat expectations. A strong increase in core inflation is mostly down to temporary factors. We expect CPI to reach the NBP target in June or July and decelerate afterwards



Construction of the 'Warsaw Hub', Poland

### GDP

Polish GDP decelerated in 1Q19 from 4.9% to 4.6%YoY, above market expectations (4.4%), according to a flash estimate. The surprise is likely related to net exports. Yesterday, current account data showed a strong downward revision to March imports, resulting in a better trade balance. We expect the deceleration was caused mainly by the investments component, while private consumption maintained stable (4.2%YoY) growth.

We expect further GDP deceleration in 2Q (4.3%YoY) related to the lower contribution of net exports.

Consumption dynamics should remain at the current 4.2% level, supported by a new '13-month' retirement benefit lump sum. We should see those figures accelerate in the third quarter to 5% YoY as child benefits are expanded.

Overall, we expect the 2019 growth rate to come in slightly above 4%YoY. The fiscal programmes should also support the economy into 2020 and we're forecasting 3.3%YoY growth then, as household spending is likely only partially to offset weaker public investments.

## CPI

Final readings on inflation confirmed that CPI rose from 1.7% to 2.2%YoY in April. The increase was driven by food prices and core inflation. Food prices accelerated from 2.5% to 3.3%YoY on supply shocks related to pork (due to the effect of African Swine Fever in China) and vegetables (the aftermath of last year drought). Prices in this category should increase even further to 4.5%YoY in May.

Secondly, we estimate core inflation increased from 1.4% to 1.7%YoY. Still, the major increase was related to transportation prices, which added 0.25pp to CPI according to the GUS comment. This shift was likely related to an increase in plane ticket prices before Easter, so it should come down in May. The demand-driven categories, such as recreation & culture and accommodation, posted small increases.

The food prices increase in the coming months should result in CPI reaching the 2.5% YoY National Bank of Poland target in June or July. That said, given the gradual core inflation increase and the weaker contribution of energy prices in the second half of the year, we expect this to oscillate between 2% and 2.5% for the rest of the year.