

Poland: Eurozone slowdown finally hits strong Polish growth

4Q18 GDP grew by 4.9% YoY, down from 5.1% YoY in 3Q18. QoQ seasonally adjusted growth has slowed to its lowest level since 3Q16. Our GDP forecast for 2019 is below consensus, with major risks from the Eurozone and from weaker investments



Source: Shutterstock

0.5%

GDP growth in 4Q18

QoQ, after seasonal adjustment

The impact of Eurozone slowdown

Annual GDP growth should remain strong in the coming 1-2 quarters, building on the solid pace of recent quarters. QoQ seasonally adjusted growth has slowed to its lowest level since 3Q16, with the Eurozone slowdown finally hitting strong Polish growth. Some reasons behind this slowdown are temporary - including problems with the certification of diesel, and low navigability

of the Rhine - and may rebound this year. Still, long term indicators reveal a strong slowdown in international trade and leading indexes show that the demand for cars, machines and equipment in January has been falling dramatically. The corresponding index has reached the level from 2016. We expect the weakness in economic growth in Poland's main trading partners to have a more negative impact on GDP growth in Poland than is assumed by consensus. **We expect GDP growth in 2019 at 3.6% YoY, below the consensus and the FinMin (3.8%),** as well as being below National Bank of Poland projections (recently the president spoke of a 4% increase in 2019).

The investment outlook

The eurozone business climate poses a high risk for investment in Poland. In 2018 we estimate that private outlays increased by a mere 3%, with public outlays up almost 25% YoY. Payments of EU funds have approached their peak so it will be difficult to repeat such a high rate of public investment in 2019. Private investments (already weak in 2018) will suffer from the slowdown abroad - exporters dominate among investing companies and small and medium-sized investments were very weak last year.

What about consumption?

Prospects for consumer demand look better. Spending will likely slow after 2 years of boom, but budget support in pre-election programmes should keep it relatively high. We estimate that the pre-election spending impulse might amount to PLN15-20bn. This is less than after the 2015 elections (and definitely less than during the slowdown in 2008-09). It will also be spread over two years. Nevertheless, consumption may surprise us on the upside. We expect growth of 3.7% YoY in 2019, compared to 4.3% in 2018.

Given the still reasonably solid growth outlook, interest rates should remain unchanged for many quarters. The next move is likely to be a rate cut, possibly in two years time.

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.