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.

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