Snap | 31 August 2018 **Poland**

Poland: Sound 2Q GDP but investment disappoints

Consumption remains the main diver of GDP. Investment remains weak, stat office claims methodological changes matters. We expect their gradual acceleration in coming quarters



Source: iStock

The second estimate of 2Q GDP confirmed a slight decline from 5.2% to 5.1% year-on-year. Domestic demand, with the dominant contribution of consumption (2.9 percentage points), is still the main driver of growth. The contribution of net exports improved (+ 0.5pp) due to a rebound in German and Polish industry in 2Q18 after a weak 1Q18.

Investment (YoY)

A disappointment given solid rise in local government and large companies, stat office said methodological change matters

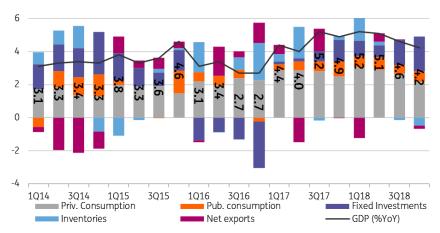
Worse than expected

Snap | 31 August 2018 1 The most important element in the data was the deceleration in investment to 4.5% YoY from 8.1%, despite growth in local government spending (in 2Q18 nominal increase of 83% YoY) and double-digit increase in investment spending of large companies (14% YoY). This suggests very poor investment outlays of small and medium-sized enterprises. Investment decisions without the election factor and outside of large companies are very cautious. This weakness in 2Q18 may be caused by the launch of new regulations on VAT in July (so-called split payment effectively freezing some working capital) as well as regulatory and legal instability. Also the statistical office said it changed the methodology for military outlays, though this doesn't seem enough to explain the 4-5pp miss vs forecasts.

Public investment should remain solid but it would be hard to expect steady growth of 30% YoY at the beginning of the year. Hence the revival of company investment outlays, including SMEs, is an important element that should helpt to boost GDP growth in coming quarters.

In our opinion, GDP growth peaked in the first half of 2018. In 2Q18, we expect an average GDP growth rate of 4.4% YoY due to a slower pace of consumer spending and a lower contribution of inventories. The contribution of net exports in the euroland should be slightly positive or close to zero. Still, a sound GDP outlook does not change the MPC's dovish outlook (we see flat rates until 2020) as CPI in 2019 is unlikely to challenge the MPC's target.

GDP growth (%YoY) and contributions (in pp)



Source: GUS, INGF from 3Q18 onwards

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

Snap | 31 August 2018 2

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 http://www.ing.com.

Snap | 31 August 2018 3