Strong Polish GDP in 2Q likely driven by public spending

GDP growth in Poland was confirmed at 3.2% year-on-year in the second quarter, largely driven by consumption, both private and public. Investment was surprisingly solid as well, but we fear this largely reflected military spending. Despite soft real economy data for 3Q, a strong 2Q GDP reading supports our call for 3% growth in 2024

GDP growth improved substantially from 1Q24 (2.0% YoY), primarily driven by consumption, both private (4.7% YoY, adding 2.7ppt to the annual growth of total GDP) and public (10.7% YoY, +2.0ppt.). The very generous increase in public sector salaries is primarily behind the strong growth in public consumption. Private consumer spending, on the other hand, continued to be driven by high wage growth in the economy, associated with both low unemployment and the large minimum wage hike this year. On the value-added side, the main source of the positive surprise was an increase in activity in services. Retail sales data, meanwhile, shows the still limited propensity to spend on durable goods (excluding cars).

2Q24 brought a significant improvement in investment (+2.7% YoY vs. -1.8% in 1Q24). The contribution of inventory changes was also less negative (-0.4ppt, vs. -2.8ppt in 1Q24). Weakness in investment was indicated by data on construction and assembly production (covering about

50% of total investment), as well as data on outlays by large companies. Therefore, we expect arms spending may have been behind the strong rebound (which is in line with relatively high imports). Outlays related to public investment remain weak, as the launch of projects co-financed by the Recovery Fund and the new EU cohesion budget has been slow. Companies are also cautious about investing, and real estate developers are waiting for a possible government programme to support the market.

Meanwhile, the contribution of net exports deteriorated (-0.8ppt vs. +0.4ppt in 1Q24). Exports are strongly affected by low demand from the eurozone, competition from Asia, or the strong zloty (according to surveys from the National Bank of Poland, it was as serious a barrier to exports as in late 2007-08). This is compounded by military-related imports.

In our view, GDP growth in the second half of the year should remain driven mainly by consumption and public investment (largely military). The slow rebound in the eurozone (especially seen in the disappointing data for the current quarter) does not bode well for Polish exports and also discourages companies from investing. There is also no major improvement in non-military public investment, which is more likely to rebound in 2025. However, strong consumer spending, driven by wage growth, suggests that our full-year GDP growth forecast for 2024 (3%) remains valid.

GDP growth should accelerate slightly in 2025 (to around 3.5% or higher). Consumer spending will remain the main driver of growth (although the rate should slow down, also due to a lower increase in the minimum wage). On the other hand, we expect a marked rebound in investment, both private and public. With domestic demand improving, however, the contribution of net exports is likely to worsen.

Author

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

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