

## Poland remains set for a 2024 recovery despite weaker consumption

The flash estimate of GDP growth in the fourth quarter came in at 1.0% year-on-year, following an increase of 0.5% YoY in the previous quarter. Weak growth primarily reflected soft domestic demand dragged down by inventory adjustments. Despite a softer final quarter and weak consumption, we expect solid GDP growth of 3% in Poland this year



View of the main square in the historic old town of Toruń, Poland

The seasonally adjusted data shows that economic activity in Poland stabilised relative to the previous quarter (0.0% quarter-on-quarter), following a 1.1% QoQ increase in the third quarter of 2023. Domestic demand contracted by 2.3% YoY in the fourth quarter, mainly due to the negative impact of inventory change (a negative contribution of 5.4pp to GDP).

Household consumption was the main area of disappointment, declining by 0.1% YoY after an increase of 0.8% YoY in the third quarter. The solid rise in real household disposable income at the end of last year did not translate into increased spending, with consumers instead opting to

rebuild savings. Investment growth continued, rising by 8.7% YoY following an increase of 7.2% YoY in the third quarter.

Net exports had a positive contribution of 3.3pp to YoY GDP growth in the fourth quarter of 2023 versus +5.9pp in the third quarter. Exports rose 2.7% YoY while imports fell 2.8% YoY versus declines of 11.0% YoY and 20.3% YoY respectively in the third quarter.

Gross value added increased by 1.4% YoY in the final quarter of last year. The same period saw gross value added in industry rising by 1.1% YoY, following declines in the previous three quarters. In construction, annual growth was 5.3%, up from 2.8% YoY in the third quarter. Trade and repair recorded a slight decline in the fourth quarter (-0.1% YoY, following a 1.7% YoY increase in value added in the previous quarter).

Despite weaker-than-expected economic growth in 2023's fourth quarter amid weakness in consumption, we are optimistic about the outlook for 2024. We forecast that GDP will grow by 3% this year – although the data points to continued industrial weakness in early 2024. The recovery will be mainly driven by consumption growth, but we do not expect a consumption boom. The main arguments in favour of consumption growth are double-digit wage growth (a minimum wage hike, raises in the public sector) and high indexation of social benefits (pensions, child benefits) amid falling inflation.

The ongoing rebound in global manufacturing should support exports, but unfortunately the pace of this recovery is lowest in the eurozone, especially in Germany. Weak external demand and a strong PLN may therefore weigh on production in export-oriented industries in the coming quarters. As a result, net exports are likely to have a negative impact on GDP in 2024. We also expect investment growth to slow down with projects from the EU 2014-2020 financial perspective and the gradual launch of investments from the 2021-2027 cohesion funds. The Recovery and Resilience Facility (RRF) funds will have a positive impact on investments in 2025.

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