

# Economic Comment

## Slightly lower GDP growth, inflation rises

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According to a flash estimate, GDP growth in Poland in 1Q19 was 4.6% y/y, slightly above forecasts (Santander: 4.5%, market consensus 4.4%) vs 4.9% in 4Q18. Seasonally adjusted growth was 1.4% q/q. The Polish economy is so far quite resilient to the global economic slowdown, but we think GDP growth will decrease further in the coming quarters. Final data on April CPI confirmed the surprisingly strong rise to 2.2% y/y. Services inflation accelerated significantly (to 3.6% y/y from 2.7%). We estimate core inflation at 1.7% y/y, the highest level in more than six years. The data are unlikely to influence the MPC rhetoric.

### GDP growth slows down, but slowly

According to a flash estimate, pace of the GDP growth in Poland in 1Q19 reached 4.6% y/y, slightly above forecasts (Santander: 4.5%, market consensus 4.4%). After the seasonal adjustment, economic growth amounted to 1.4% q/q which should be viewed as a strong result supporting the view that the Polish economy is quite resilient to the global economic slowdown. We do not know the breakdown yet (it will be revealed on May 31st) but we suspect that strong domestic demand played important role (private consumption >4% y/y, fixed investment near 7% y/y). On top of that, net export most likely had positive contribution to growth as well (near 1pp), as yesterday's balance of payments data showed that foreign trade balance improved substantially in 1Q in y/y terms. We expect Polish economy to continue slowing, but only gradually (with average GDP growth in 2019 at 4.1-4.2%), as the impact of negative external environment (slowdown in EU, US-China trade war that could be a drag for the global foreign trade) will be partly offset by robust consumption and investments.

### GDP growth and its components (% y/y)

	2017	2018	1Q18	2Q18	3Q18	4Q18	1Q19
GDP	4.8	5.1	5.2	5.3	5.2	4.9	4.6
Domestic demand	4.9	5.5	6.6	4.9	6.1	4.8	4.0**
Total consumption	4.1	4.5	4.5	4.6	4.5	4.3	3.9**
Private consumption	4.5	4.5	4.6	4.8	4.4	4.2	4.2**
Public consumption	2.9	4.7	4.5	4.5	5.2	4.7	3.0**
Gross accumulation	7.9	9.6	19.1	5.9	12.4	6.1	4.6**
Fixed investment	4.0	8.7	9.6	6.0	11.3	8.2	7.2**
Stockbuilding *	0.8	0.4	1.5	0.1	0.4	-0.3	-0.2**
Net export *	0.2	-0.2	-1.1	0.6	-0.6	0.3	0.7**

\* contribution to GDP growth (percentage points); \*\* Santander estimates

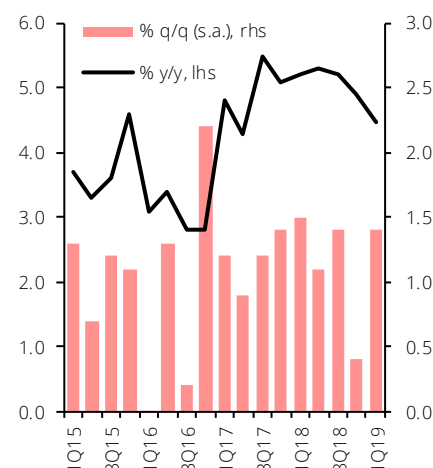
Source: GUS, Santander Bank Polska

### Inflation nears the target

Final data on April CPI confirmed the surprisingly strong rise to 2.2% y/y. Faster growth of prices was recorded in numerous services categories (that overall rose 3.6% y/y vs 2.7% y/y in March). Prices of goods rose 1.7% y/y vs 1.3% y/y in March. Our estimate of core CPI for April is 1.7% y/y, which is the highest level for over six years if this is confirmed tomorrow by NBP calculations. We expect CPI and core inflation to keep rising towards the 2.5% target, which might be breached in the middle of the year. We do not expect the MPC rhetoric to change as long as CPI does not breach the target persistently.

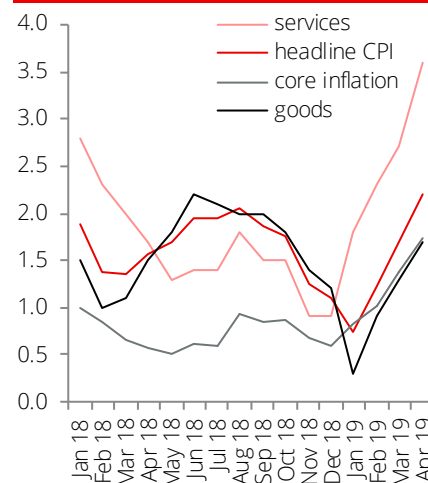
The price growth acceleration vs March was mainly an effect of three factors – higher food prices, dwelling costs and transport costs. Pork prices rose by 9.9% m/m and meat products by 2.0% m/m, which is linked to ASF disease. This factor is likely to hold the pork prices on the elevated level in the coming months. In the dwelling costs, the item worth noting is the trash collection charge (rising by 6.0% m/m), which was a consequence of regulatory changes. The transport costs rose mainly owing to the fuel prices hike for private cars (by 4.1% m/m) and by transport services fares (by 27.2% m/m). In our opinion the last factor could be a consequence of rising airline ticket

### GDP growth, % y/y



Source: GUS, Santander Bank Polska

### Inflation measures, % y/y



Source: GUS, NBP, Santander Bank Polska

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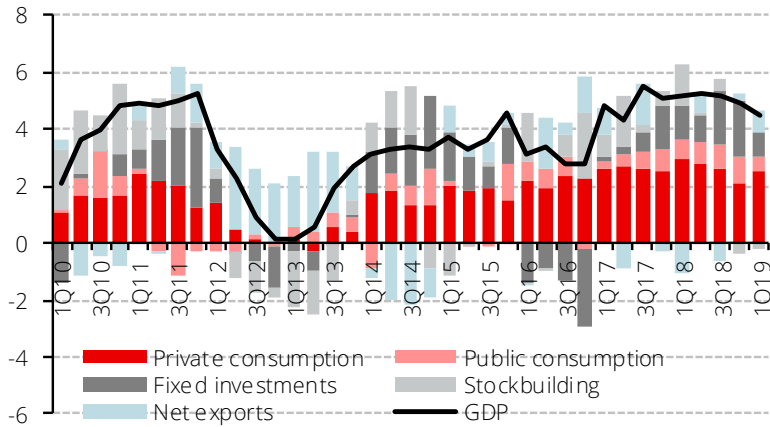
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prices, owing to the Easter and the start of spring holiday season. We think that this could be only a temporarily effect, but if it fades partly in the following months it should not undermine the positive services prices inflation trend.

**GDP growth breakdown (% y/y) with Santander estimates for 1Q19**



Source: GUS, Santander Bank Polska

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