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Economic Comment

Say goodbye to five percent growth

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GDP growth in 2018 was 5.1% according to flash estimate, in line with our forecast, which means that in 4Q18 economy has 'finally' slowed below 5% mark. Our estimate for the final quarter is 4.8% y/y. In general, 2018 was the excellent year for Polish economy, as it refused to show any major slowdown despite growing evidence of deteriorating business climate across Europe. However, it is time to say goodbye to five-percent growth. Still, we remain moderately optimistic for the near-term outlook. GDP growth is going to slow in every consecutive quarter of 2019, in our view, but the average growth should remain quite decent, around 3.8%. Private consumption and fixed investments will remain the main motors of growth, in our view.

Interestingly, the main components of domestic demand, which were also the main drivers of economic growth in 2018 – private consumption and investments – disappointed at the end of the year. Private consumption rose 4.5% in the whole year, which implies its slowdown to below 4% y/y in 4Q18 (lowest in two years). Fixed investments rose 7.3% in 2018, which implies slowdown to below 7% y/y in 4Q18. The overall GDP number was 'saved' by higher than we expected net exports' contribution (which added almost 1pp to growth in 4Q), and – to some extent – by higher growth of public consumption. Disappointing performance of private consumption and investments at the end of the year looks worrying. However, we still believe that both components should fare better in the coming quarters. Consumers' demand should be buoyed by a decent rise in labour income, while investment growth should be supported by the absorption of EU funds (according to our estimates, the peak of EU-funded investment spending should be in 1H19).

The element which we find most difficult to explain is the significantly positive contribution of net exports to GDP growth in 4Q18 (+0.8pp according to our estimate). The data about foreign trade performance in December are not available yet, but according to our forecasts, the balance of trade in goods and services in 4Q18 was c.PLN4.3bn lower than in 4Q17. It does not justify a positive net exports' contribution, unless there was some major change in foreign trade deflators (difficult to explain). It cannot be ruled out that this category would be revised at later GDP data releases.

Value added growth most probably also slid slightly below 5.0% y/y in the fourth quarter, versus 5.1% in 3Q18. Supply-side estimates show that industry and construction remained the main growth drivers in 4Q18, with value added in industry rising by about 5.5% y/y and construction by about 13.5% y/y – merely unchanged versus 3Q18 (5.1% and 13.8%, respectively). Value added in trade rose by about 4% y/y, also close to 3Q18 (4.0% r/r), while value added in transport slowed down to 7.5% y/y from 11.9% y/y recorded previously. In the quarters to come, we are expecting a general slowdown, which will be more pronounced industry and construction, less in trade.

2018 GDP data were not far from market consensus (5.0%), so they are neutral for markets. More important will be probably tomorrow's PMI publication, hinting about the outlook for manufacturing.

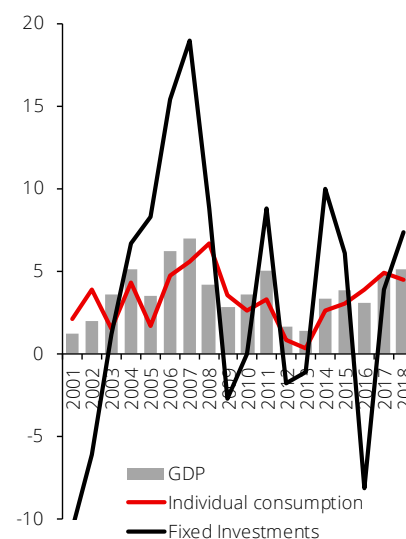
GDP growth and its components (% y/y)

	2016	2017	2018	1Q18	2Q18	3Q18	4Q18**
GDP	3.1	4.8	5.1	5.3	5.1	5.1	4.8
Domestic demand	2.3	4.9	5.3	6.6	4.4	6.2	4.1
Total consumption	3.5	4.5	4.3	4.3	4.5	4.2	4.2
Private consumption	3.9	4.8	4.5	4.7	4.9	4.5	3.9
Public consumption	1.9	3.5	3.9**	3.0	3.5	3.6	5.1
Gross accumulation	-2.0	6.2	9.2	21.1	4.2	14.6	4.0
Fixed investment	-8.2	3.9	7.3	8.2	4.7	9.9	6.9
Stockbuilding *	1.2	0.5	0.5**	1.9	0.0	1.0	-0.6
Net export *	0.8	0.1	0.0	-1.0	0.9	-0.9	0.8

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

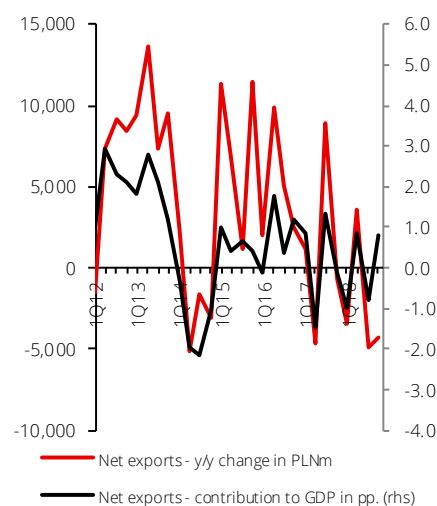
Source: GUS, Santander Bank Polska

GDP growth, % y/y



Source: GUS, Santander Bank Polska

Net exports and its impact on GDP

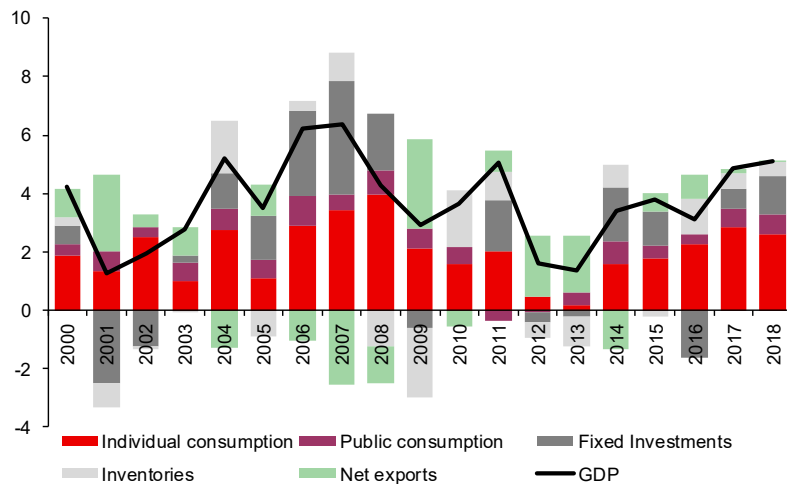


Source: GUS, Santander Bank Polska

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GDP growth breakdown(% y/y)



Source: GUS, Santander Bank Polska

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