29 August 2024

Economic Comment

2Q: strong consumption and investments above zero

Piotr Bielski, tel. +48 691 393 119, piotr.bielski@santander.pl
Grzegorz Ogonek, tel. +48 609 224 857, grzegorz.ogonek@santander.pl

2Q GDP growth was confirmed at 3.2% y/y nsa and 1.5% q/q or 4.0% y/y sa. The breakdown of growth looks strong: private consumption accelerated to 4.7% y/y (slightly more than we expected), while public consumption soared 10.7% y/y, both fuelled by strong wage and revenue growth of households. Investment growth jumped from -1.8% y/y in 1Q to +2.7% y/y in 2Q, which is the biggest positive surprise of the release. Overall, it looks like strong domestic demand (which accelerated in 2Q to 4.3% y/y, the strongest in two years) is currently protecting the Polish economy from the impact of poor economic activity in the euro zone. Today's data do not change our projected economic scenario with 3% GDP growth in 2024 and slightly faster (near 3.5%) in 2025. The GDP growth structure will not give the MPC additional arguments to consider earlier interest rate cuts, in our view.

2Q GDP growth was confirmed at 3.2% y/y nsa and 1.5% q/q or 4.0% y/y sa. The breakdown of growth looks strong: private consumption accelerated to 4.7% y/y (slightly more than we expected), while public consumption soared 10.7% y/y, both fuelled by strong wage and revenue growth of households.

Investment growth jumped from -1.8% y/y in 1Q to +2.7% y/y in 2Q, which is the biggest positive surprise of the release. We expected to see a poor reading after the data from corporate sector showed a major drop in investments of large companies in 2Q. The actual quite good result may be largely due to reviving public investments, including, perhaps, the purchase of military equipment. It should be noted, however, that Poland is mainly purchasing this equipment abroad, so this does not boost GDP, as together with more investment it also generates more imports. The impact of net exports on GDP actually turned out to be slightly worse than we expected, at -0.8 pp (we had expected a result close to zero). Nevertheless, Eurostat data for April-May show a decline, not an increase, in domestic imports of arms and ammunition. We would therefore attribute a greater role in the investment recovery in 2Q to an acceleration in public sector investment projects, including infrastructure construction. This is supported, inter alia, by data from the local government sector, which showed an increase in investment of almost 6% y/y (nominally), and on construction production in its civil engineering part. The change in inventories lowered GDP growth in the second quarter by around 1 percentage point.

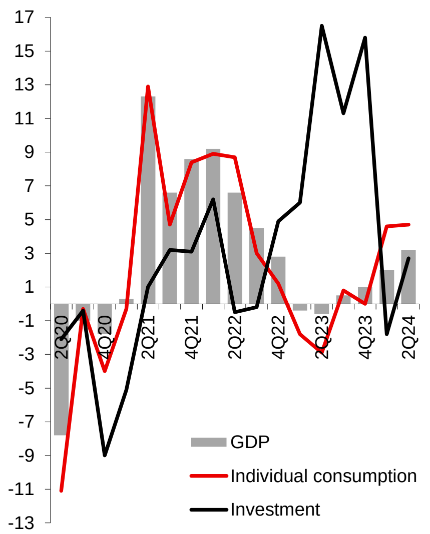
GDP growth and its components (% y/y)

	2022	2023	2Q23	3Q23	4Q23	1Q24	2Q24
GDP	5.6	0.2	-0.6	0.5	1.0	2.0	3.2
Domestic demand	5.2	-3.2	-2.6	-4.1	-1.5	1.7	4.3
Total consumption	4.3	-0.1	-1.9	1.2	2.0	5.9	6.1
Private consumption	5.4	-1.0	-2.9	0.8	0.0	4.6	4.7
Public consumption	0.5	2.8	1.1	2.5	7.5	10.9	10.7
Gross accumulation	8.5	-14.1	-5.6	-22.9	-10.3	-19.8	-4.0
Fixed investment	2.7	13.1	16.5	11.3	15.8	-1.8	2.7
Stock building *	1.4	-5.2	-3.3	-6.7	-6.4	-2.8	-1.1
Net export *	0.6	3.3	1.9	4.5	2.4	0.4	-0.8

* contribution to GDP growth (percentage points)
Source: GUS, Santander

Overall, it looks like strong domestic demand (which accelerated in 2Q to 4.3% y/y, the strongest in two years) is currently protecting the Polish economy from the impact of poor economic activity in the euro zone, Germany in particular. Because of the size of the domestic market, Poland is much more resilient to the German slowdown than other CEE countries, as we have been arguing for some time. This situation should continue in the coming quarters, although the composition of domestic demand may change over time, in

GDP and its components, % y/y



Source: GUS, Santander

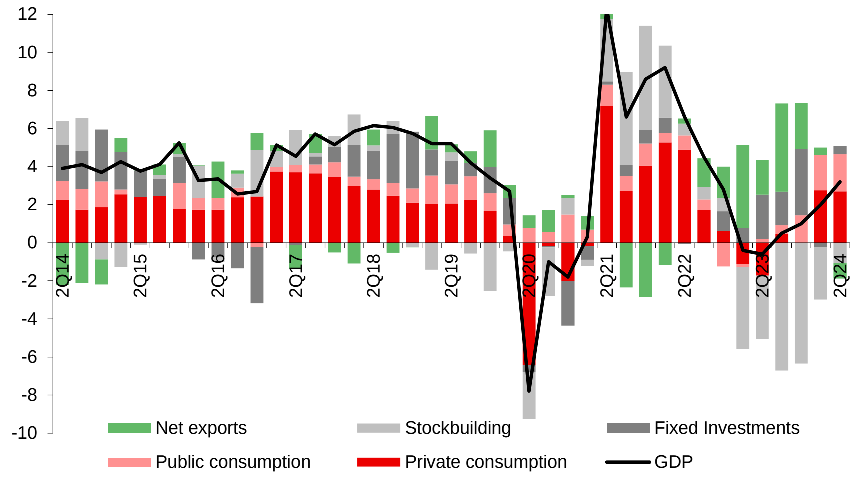
Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Bartosz Białas +48 517 881 807
Cezary Chrapek, CFA +48 887 842 480
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

our view – we expect a moderate slowdown in consumption in 2025, but at the same time a marked acceleration in investments, driven increasingly by the implementation of projects financed by EU funds.

Today's data do not change our projected economic scenario with 3% GDP growth in 2024 and slightly faster (near 3.5%) in 2025. The GDP growth structure will not give the MPC additional arguments to consider earlier interest rate cuts, in our view.

GDP growth and its components (% y/y)



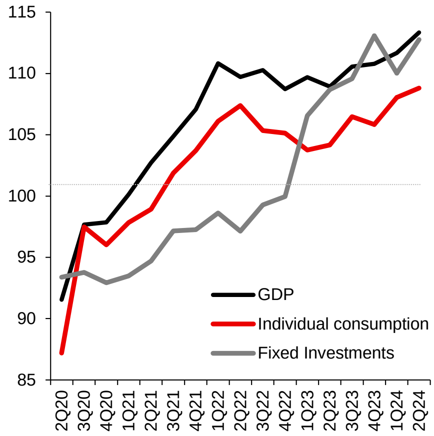
Source: GUS, Santander

Gross value added accelerated in 2Q from 1.7% y/y to 2.2% y/y nsa, and according to seasonally adjusted data from 2.2% y/y to 4.0% y/y. The data showed a 1.6% q/q sa increase in value added.

Sectors of the economy grew in terms of value added at a similar y/y pace to 1Q, with the majority recording some improvement. Industry provided 0.8% more value added y/y (1Q was +0.2% y/y), construction limited the decline to -6.3% y/y from -10.9% y/y. Value added in trade and repair grew by 4.1% y/y, slightly slower than in 1Q (4.4% y/y) but well above readings for 2H2022 and all of 2023. Transport and storage added value growth of 1.6% y/y from 1Q, expanding to 3.4% y/y in 2Q. The other service sectors combined showed growth of 3.9% y/y, compared to 3.5% y/y in 1Q.

Total gross value added was responsible for 2.0 percentage points of GDP growth in 2Q. The remaining 1.2 pp was provided by the 'taxes minus subsidies' part, which is quite high (it was +0.5 pp in 1Q) after this component had a strong downward effect on economic growth last year (its average contribution to growth was -0.9 pp then). It is an effect of VAT revenue growth observed this year, partly due to the restoration of the VAT on food in April.

GDP and its components, s.a. 4Q19=100



Source: GUS, Santander

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions. securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.
Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw. Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.