

Economic Comment

GDP growth slowing, inflation accelerating

Piotr Bielski, +48 22 534 18 87, piotr.bielski@santander.pl

GDP growth in 2Q19 slowed to 4.4% y/y, slightly below expectations, while CPI inflation rose to 2.9% y/y, in line with the flash estimate. Both trends are likely to be maintained in the coming quarters – economic growth will probably continue slowing gently, while inflation will keep climbing, with a risk of exceeding 4% in January 2020. The data are unlikely to change Polish central bank's mindset, as inflation spike, even if stronger than expected, will be perceived as temporary in the context of deteriorating growth outlook abroad.

GDP growth slowing gently, but still decent

According to flash estimate, GDP growth in Poland slowed in 2Q19 to 4.4% y/y and after seasonal adjustment to 0.8% q/q (from 4.7% y/y and 1.5% correspondingly in Q1). The data were only slightly below our forecast and market consensus at 4.5% y/y and confirm that Polish economic growth is slowly losing momentum, although it remains quite decent as compared to other European countries. We think that private consumption and fixed investment remained the main drivers of economic growth in Q2, and the net exports' contribution to growth was probably also slightly positive. What could have slowed expansion was probably contraction of inventories. The more detailed data with GDP breakdown will be released at the end of August.

We still believe that Polish economy will continue slowing gradually, towards 4.0% y/y in Q4 and 4.3% average in 2019, under growing influence of deteriorating external environment and internal capacity constraints.

GDP growth and its components (% y/y)

	2018	1Q18	2Q18	3Q18	4Q18	1Q19	1Q19
GDP	5.1	5.2	5.3	5.2	4.9	4.7	4.4
Domestic demand	5.5	6.6	4.9	6.1	4.8	4.2	4.3**
Total consumption	4.5	4.5	4.6	4.5	4.3	4.4	4.3**
Private consumption	4.5	4.6	4.8	4.4	4.2	3.9	4.3**
Public consumption	4.7	4.5	4.5	5.2	4.7	6.4	4.4**
Gross accumulation	9.6	19.1	5.9	12.4	6.1	3.2	4.1**
Fixed investment	8.7	9.6	6.0	11.3	8.2	12.6	9.0**
Stockbuilding *	0.4	1.5	0.1	0.4	-0.3	-1.1	-0.7**
Net export *	-0.2	-1.1	0.6	-0.6	0.3	0.7	0.3**

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

Source: GUS, Santander Bank Polska

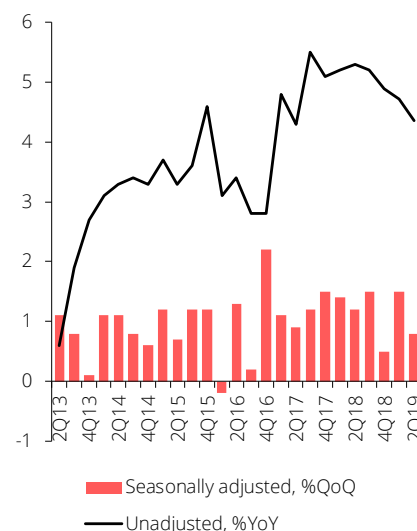
Inflation still in the upward trend

Final CPI inflation data for July confirmed the flash estimate at 2.9% y/y, its highest level since late 2012. While food prices have contributed positively to CPI surge, rising 0.3% m/m in July, which usually is a month of food price deflation, it was not the only factor responsible for higher reading. Services prices continued acceleration, rising 4.2% y/y in July. According to our estimate, core inflation ex food and energy accelerated to 2.1% y/y, its seven-year high (the official data will be released on Friday).

We still think this is not the end of inflation's upward trend in Poland. While in August-September CPI may stabilize or even retrace slightly, it will jump above 3% y/y by December and could even breach 4% in January 2020 if the government does not extend the energy price freeze for households. Even if jump above 4% will be temporary, CPI may stay above 3% throughout 2020 and core inflation could go above 2.5%.

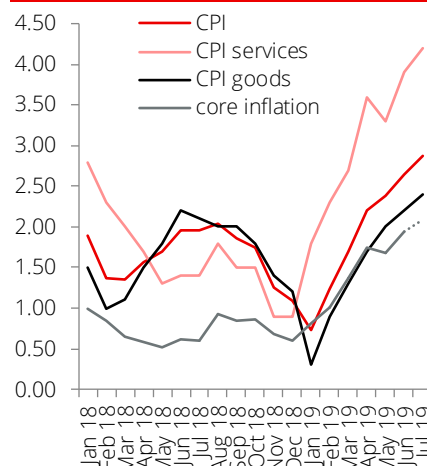
The Polish central bank will probably look through the inflation spike and will keep monetary policy on hold due to growing uncertainty about growth outlook and major shift towards monetary easing abroad.

GDP growth in Poland



Source: GUS, Santander

Inflation measures, % y/y

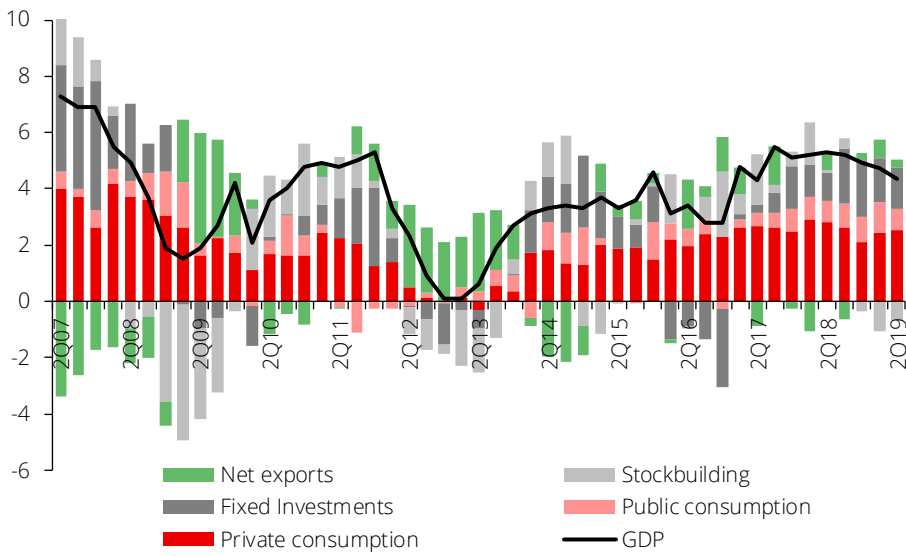


Source: GUS, NBP, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 22 534 18 87
 Marcin Luziński +48 22 534 18 85
 Wojciech Mazurkiewicz +48 22 534 18 86
 Grzegorz Ogonek +48 22 534 19 23
 Marcin Sulewski, CFA +48 22 534 18 84

GDP growth breakdown (% y/y) with Santander estimates for 2Q19



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.