INSTANT COMMENT

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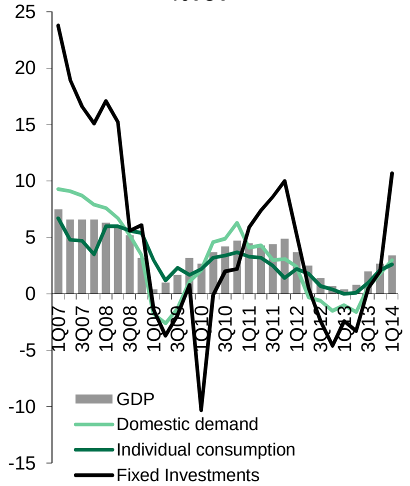
Domestic demand supports the GDP growth

GDP growth accelerated to 3.4%YoY in Q1, above expectations. The biggest surprise was provided by fixed investment, which jumped by 10.7%YoY (the fastest growth rate since mid-2008), which however may have been partially due to weather conditions, much better than a year before. Consumption and export growth also accelerated (2.6%YoY and 7.6%YoY, respectively). In our view, these are not conditions suggesting any deflationary threat in Poland or necessity of interest rate cuts. We maintain our forecast of GDP growth at 3.5%YoY in 2014 (it is still one of the market's highest), but we see a rising probability of a better result, provided there is no softening of economic recovery in the euro zone.

GDP growth and its components, %YoY



Pace of the GDP growth accelerated in 1Q14 to 3.4%YoY and was slightly higher than the flash estimate at 3.3%YoY. Let us remind that even the flash estimate was better than expected. This time however the GDP breakdown was even more surprising that its growth rate itself. In particular, the revival of domestic demand was outstanding and beat expectations. Investments recorded a strong rebound – gross fixed investments surged by 10.7%YoY, the fastest growth rate since mid-2008 (vs. only 2%YoY in 4Q13). Data from the banking sector have been suggesting a rising companies' demand for investment loans, but the scale of this revival was really shocking. It cannot be ruled out, however, that this result was partly driven by the weather, which was much more convenient than a year ago. Private consumption increased by 2.6%YoY, roughly in line with our expectations. Overall, the domestic demand advanced by 3.0%YoY, the fastest growth in three years. Thus, the scenario expected by us that the role of domestic demand will be becoming more and more pronounced is materializing. At the same time, exports are still an important engine of growth, rising by 7.6%YoY in real terms, at the fastest pace since 3Q2011. However, the accelerating growth rate of imports caused that contribution of net exports to GDP growth shrank in Q1 to 0.5pp (see details in the table).

Our forecast of this year's GDP growth is still at 3.5%YoY. On one hand, the stronger recovery of domestic demand can feed more optimism, but on the other the uncertainty about economic growth abroad makes us cautious about forecasts for the upcoming quarters. Economic expansion can prove quicker, should the upcoming months bring no softening of the recovery in the euro zone.

GDP growth and its components (%YoY)

	2011	2012	2013	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
GDP	4.5	2.0	1.6	0.7	0.4	0.8	2.0	2.7	3.4
Domestic demand	3.6	-0.1	0.0	-1.5	-1.0	-1.6	0.6	1.8	3.0
Total consumption	1.6	1.0	1.2	0.4	0.0	1.2	1.4	2.4	2.2
Individual consumption	2.6	1.3	0.8	0.4	0.0	0.1	1.0	2.1	2.6
Public consumption	-1.7	0.2	2.8	0.6	0.1	5.0	3.0	3.1	0.7
Gross accumulation	11.2	-4.0	-4.7	-6.0	-7.0	-13.5	-2.9	0.2	8.5
Gross fixed investment	8.5	-1.6	-0.2	-4.6	-2.4	-3.3	0.5	2.0	10.7
Net exports*	0.9	2.1	1.6	2.3	1.5	2.3	1.5	1.0	0.5

* contribution to GDP growth (in pct. points)

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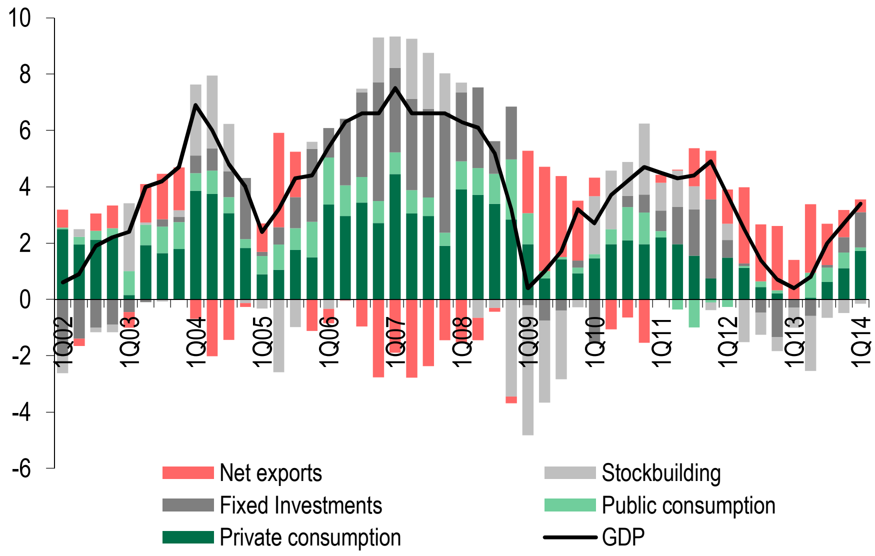
Breakdown of GDP growth (%YoY)



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