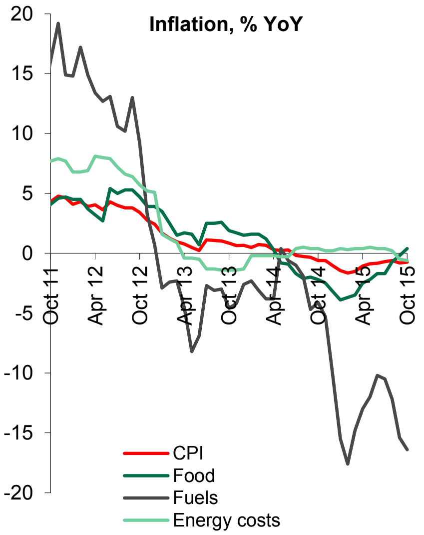
Bank Zachodni WBK
Grupa Santander

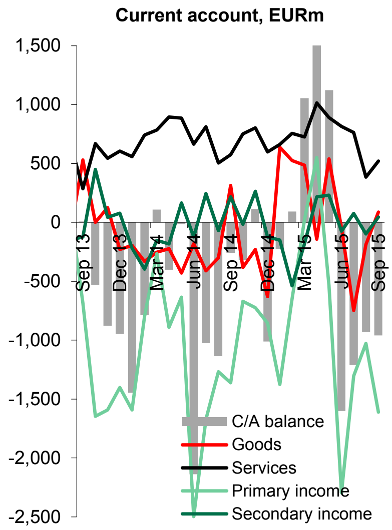
INSTANT COMMENT

13 November 2015

Stable GDP growth, inflation slightly higher

According to the flash estimate, pace of the GDP growth reached 3.4% in 3Q15, slightly above expectations. October CPI also surprised to the upside rising to -0.7%YoY (flash release pointed to stabilization at -0.8%YoY) but this was mainly thanks to higher food prices and we think that core CPI stayed low at 0.2%YoY. September balance of payments showed wider C/A deficit due to weaker exports growth (4.1%YoY). We expect the pace of the GDP growth to stay sound in the quarters to come thanks to decent internal demand and exports' acceleration due to economic revival in the euro zone. At the same time, inflation should continue rising mainly on the back of low base effect, higher food and fuel prices and later also due to decent consumption and the impact of tax on large stores.





Headline inflation slightly up, core CPI still low

Inflation rose in October to -0.7%YoY, that is marginally above -0.8% initially estimated by the stat office two weeks ago. The detailed data showed that main category driving CPI higher was food prices that rose 0.4%MoM and 0.4%YoY (vs. -0.2%YoY in September). Elsewhere, the annual pace of growth was similar to what was recorded in the previous month. As a result, we estimate that the core CPI after excluding food and energy prices stayed unchanged in October at 0.2%YoY.

We still expect inflation to rise in the coming months thanks to, among others, exceptionally low base effect, higher food prices and more expensive fuels (already in November fuel prices started to rise noticeably on the back of a stronger dollar and we think that rising oil price in the global market will add upside pressure in the coming months). Also, the sound consumption demand and likely new tax imposed on the large stores planned by PiS could also push inflation up. At the same time, deflation may last slightly longer than we had expected. We forecast the annual CPI to rise above zero in December but likely not more than to 0.2%. The upside trend should be continued next year.

Current account balance again negative in Q3

Current account balance reached -€959mn in September versus consensus at -€427mn and our forecast at -€519mn. The higher-than-expected deficit was due to negative surprise in trade of goods. The market underestimated imports (which reached €14.97bn, rise by 5.8%YoY), while we overestimated exports (which reached €15.06bn, rise by 4.1%YoY). Recent favourable data on German exports were supportive for our optimistic forecast of domestic foreign trade, but it did not materialize.

The entire 3Q saw a current account deficit at €3.1bn after two consecutive quarters of surpluses. In 3Q exports expanded by 5.3%YoY (as compared to 9.8%YoY in 1Q) and imports by 6.4%YoY (vs. 3.6%YoY in 1Q). Thus, we can observe an acceleration of imports, in line with strengthening domestic demand, which is translating into higher current account deficit (which reached 0.5% of GDP in September, according to our estimates). In our view, this tendency will continue, but exports are not expected to decelerate further and can even accelerate given the economic recovery in the euro zone.

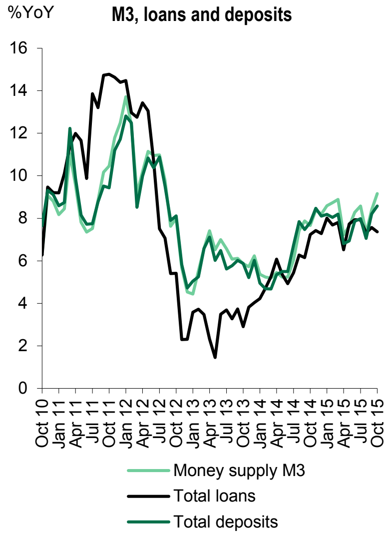
Results of other components of the current account were more or less in line with our expectations: services recorded a surplus of €520mn, secondary incomes a surplus of €46mn and primary incomes a deficit of €1.6bn. Income balance was weaker in September due to low inflow of EU funds.

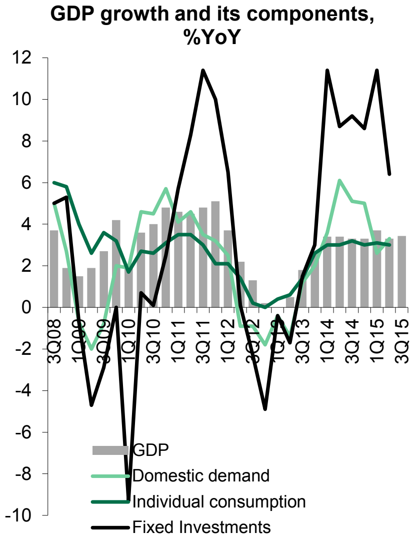
ECONOMIC ANALYSIS DEPARTMENT:
al. Jana Pawła II 17, 00-854, Warszawa fax +48 22 586 83 40
email: ekonomia@bzwbk.pl Web site: http://www.bzwbk.pl

Maciej Reluga (Chief Economist)	+48 22 534 18 88
Piotr Bielski	+48 22 534 18 87
Agnieszka Decewicz	+48 22 534 18 86
Marcin Luziński	+48 22 534 18 85
Marcin Sulewski	+48 22 534 18 84

TREASURY SERVICES:

Poznań	+48 61 856 5814/30
Warszawa	+48 22 586 8320/38
Wrocław	+48 71 369 9400





Growth of corporate loans still solid

In October, the M3 money supply rose by 9.2%YoY (versus 8.4%YoY in the previous month), exceeding our and market expectations (8.5%YoY and 8.4%YoY, respectively). This stemmed from further acceleration in cash in circulation by 16.1%YoY (the strongest growth since March 2009.). In nominal terms, the monthly increase in this category (by cPLN3bn) was also at the highest value since June 2013. M3 growth was also driven by solid growth in total deposits (by 8.6%YoY, i.e. by c1pp above the average for the previous months of 2015), which was due to visible acceleration in household deposits (to 9.4%YoY) and healthy growth of corporate deposits, which remained above 11%YoY. In nominal terms, household deposits increased by PLN6.2bn as compared to September (the strongest monthly increase since February), while deposits of non-monetary financial institutions grew by nearly PLN4bn. There were no significant changes in total loans. Loans to households slightly accelerated to 6.4%YoY (up from 6.1%YoY a month earlier), while pace of corporate loans also improved (to 8.8%YoY from 8.3%YoY in September, which is still well above the average of 7.3% in the first nine months of 2015).

Stable, solid GDP growth in 3Q15

Flash GDP data showed 3.4%YoY growth in 3Q15, slightly above our forecast and market consensus at 3.3%YoY. Seasonally adjusted growth reached 0.9%QoQ, in line with our estimates.

GDP growth in 2Q15 has been maintained at 3.3%YoY, while 1Q15 data has been revised up from 3.6% to 3.7%YoY. At the same time, data for the two previous years have been revised downwards, with particularly strong correction in 2013. As a consequence, current estimate of GDP growth in 1Q13 amounts to 0.0%YoY, instead of 0.5%YoY according to earlier calculations. Thus, it cannot be excluded that the revised quarterly data for 2010-12 (still due for release) will show that at the end of 2012, when the economy was at the bottom of the cycle, GDP growth was temporarily below zero.

Nevertheless, it does not change the fact that current data show a stabilization of economic growth clearly above 3%YoY, starting from 1Q14. It is the longest period of such a stabilization since comparable quarterly data are available (i.e. since 1995). We do not know the breakdown of GDP growth in the third quarter yet, but we guess that growth of both private consumption and fixed investments remained solid and similar as in the second quarter (respectively, near 3% and 6%YoY), while export and import growth accelerated. We think that economic growth should remain stable in the coming quarters, or may even accelerate slightly, supported by still reasonably strong domestic demand and continuation of economic recovery in the euro area. As a consequence, average GDP growth in 2015 may reach 3.5%. 2016 should not be worse, as long as there is no significant deterioration in outlook for the global economy.