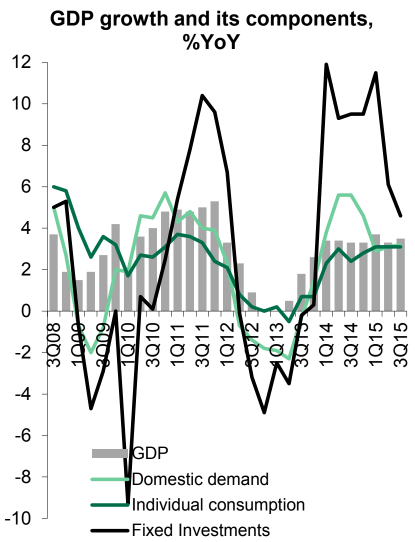
INSTANT COMMENT

30 November 2015

GDP above, CPI below expectations

Pace of the GDP growth accelerated in 3Q15 to 3.5% YoY, above forecasts, mainly due to better net exports' contibution. Investment growth decelerated to 4.6% YoY despite information about the revival of fixed assets spending in big companies, which suggests that some slowdown could have taken place in public investments. We do not assume this to be a persistent phenomenon as investment's revival is one of the new government's priorities. Private consumption growth has stabilized at a moderate level and sound labour market should help this trend to continue in the coming quarters. We still expect GDP growth to stay close to 3.5% YoY in the quarters to come.

Flash November CPI incrased to -0.5% YoY. Inflation is rising slower than expected and deflation may end at the start of 2016 instead of 4Q15.



GDP grows faster mainly thanks to net exports

Pace of the GDP growth accelerated in 3Q15 to 3.5% YoY and was higher than the flash estimate at 3.4%. Although the headline number looks optimistic, the growth structure is somewhat disappointing to us.

First of all, pace of investments' growth decelerated in 3Q to 4.6% YoY despite quite good sentiment among companies, stable growth of investment loans and an earlier data from large companies showing a revival in spending on fixed assets in 3Q after some slowdown seen in 2Q. This suggests that deceleration took place in small companies or in public investments. The latter factor is in our view the main source of uncertainty for investment growth in the next quarters (also as regards the utilization of the EU funds) as we think that the private sector should continue to spend much on the fixed assets amid high capacity utilization rate and continuation of the economic expansion in the euro zone.

Second, export growth also slowed in 3Q15 (to 3.9% YoY). However, contribution of the so-called net exports to GDP remained positive and even slightly improved (from 0.2 pp to 0.4 pp) – and it was the main reason of slight GDP growth acceleration in 3Q15 – because at the same time the growth of imports slowed even more (to 3.1% YoY). In upcoming quarters exports growth should, in our opinion, accelerate further (due to economic recovery in the euro area and quite weak zloty), but imports can also rebound, weakening the impact of net exports contribution to GDP.

The consumption growth stabilized in 3Q at 3.1% YoY. In our view, the solid rise of household's real incomes and low interest rates should be supportive for a gradual revival of consumer demand. However, as we can see in data from the last quarters, the saving rate is climbing, so growth rate of consumer spending remains flat. In the upcoming quarters consumption should remain an important growth driver, but we should not expect a major acceleration, unless households change their spending pattern.

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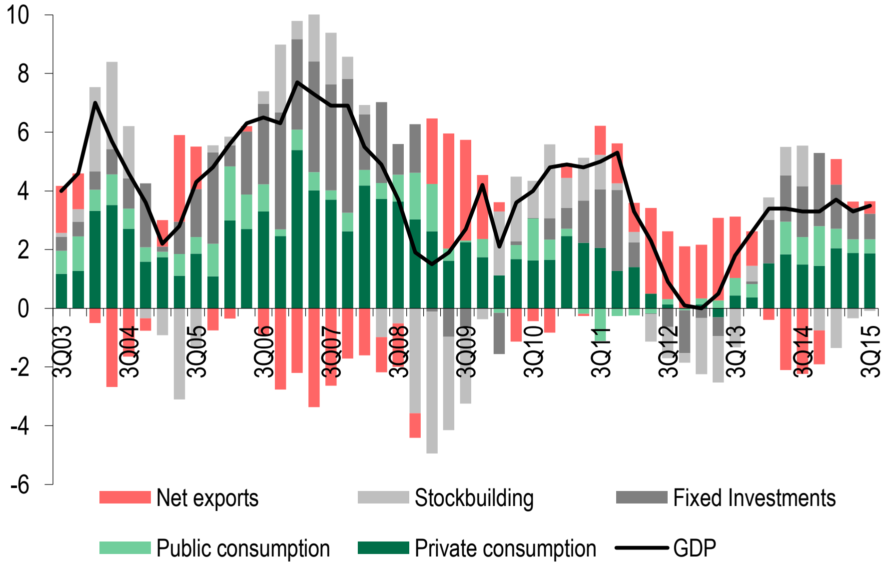
GDP growth and its components (%YoY)

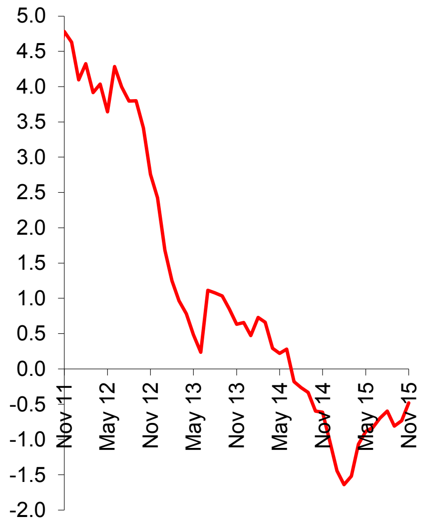
	2012	2013	2014	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15
GDP	1.6	1.3	3.3	3.4	3.4	3.3	3.3	3.7	3.3	3.5
Domestic demand	-0.5	-0.7	4.9	3.8	5.6	5.6	4.6	2.9	3.1	3.2
Total consumption	0.5	0.7	3.1	1.8	3.6	2.9	4.0	3.2	2.9	2.9
Private consumption	0.8	0.2	2.6	2.3	3.0	2.4	2.8	3.1	3.1	3.1
Public consumption	-0.4	2.2	4.9	0.0	6.2	5.3	7.4	3.7	2.5	2.7
Gross accumulation	-3.9	-5.8	12.6	18.0	15.1	18.0	6.3	1.1	4.0	4.0
Fixed investment	-1.8	-1.1	9.8	11.9	9.3	9.5	9.5	11.5	6.1	4.6
Net export *	2.1	2.0	-1.5	-0.4	-2.1	-2.2	-1.2	0.9	0.2	0.4

* contribution to GDP growth (percentage points)

GDP growth breakdown (% YoY)



CPI, % YoY



CPI inched up, but less than expected

According to flash estimate, inflation CPI amounted to -0.5% YoY, below our forecast (-0.3% YoY) and market consensus (-0.4% YoY). For the time being we do not have any details regarding the growth in each category, thus it is hard to predict whether the surprise was due to lower food prices or the increase in core categories. Inflation is increasing, but more slowly than expected. Lower CPI reading in November is likely to extend the period of deflation in Poland – it seems that, contrary to our earlier expectations the period of negative CPI growth will not finish before the end of 2015, but rather in January or February 2016. On the other hand, we would like to recall that the final CPI reading for October was slightly higher than the initial estimate (-0.7% YoY instead of -0.8% YoY) and it cannot be ruled out that the same case will be also this time. In our view, the inflation rate will gradually increase in 2016, but average inflation may be lower than 1.0% YoY.

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