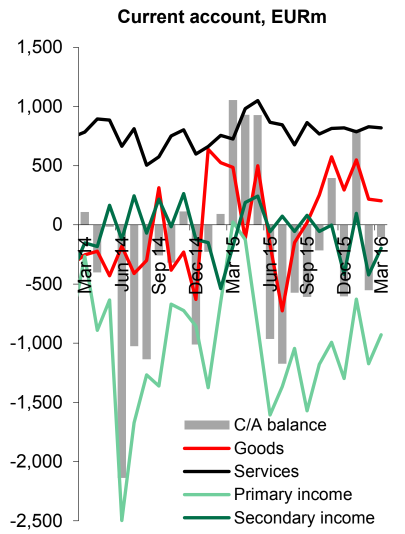
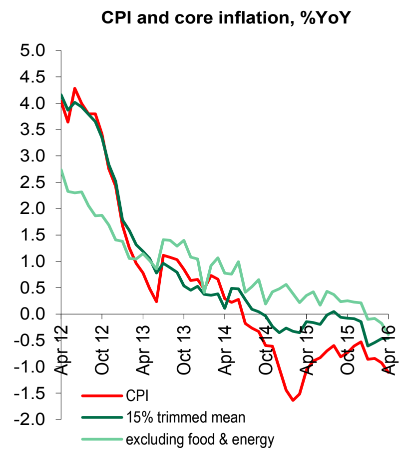
INSTANT COMMENT

13 May 2016

Low GDP, deeper core deflation

Today a number of macroeconomic data were released. First negative surprise was balance of payments figure, which showed current account deficit at €103m (against expected surplus). This was mainly the effect of lower-than-expected trade surplus, as a result of higher imports. Deficit in primary income was also higher than predicted. Second disappointment was connected with flash Q1 GDP figure. In the first three months of 2016 economic growth amounted to only 3% y/y (down from 4.3% in 4Q2015). Detailed GDP breakdown will be known only at the end of the month, but it looks like public investments were mostly responsible for the slowdown. As expected, core CPI data showed deeper deflation, the measure excluding energy and food prices fell to -0.4% y/y, the lowest level since comparable data are available (2001). The money supply unexpectedly accelerated in April to 11.5% y/y (from 9.1%), which was the result of sharp growth in firms' deposits and some acceleration in households' deposits. What's positive, credit for enterprises accelerate to almost 11% y/y. The impact of the data published today on the financial market was limited (slightly positive for rates market and neutral for the zloty), as all market participants are awaiting Moody's decision on Poland's sovereign rating (to be published this evening).





Unexpected C/A deficit

In March, in contrast to our and market expectations the current account showed a €103mn deficit due to, among others, lower trade surplus (€204mn) and higher deficit on the primary incomes account (€928mn). While exports was only slightly above our forecasts (€15.4bn vs our forecast at €15.3bn), imports surprised well to the upside (€15.2bn vs our forecasts at just below €15bn), particularly given the weak March retail sales release. Our forecasts for the remaining categories were close to the numbers released.

Despite slightly weaker than we expected March data on balance of payment, we are still optimistic as regards exports growth in the months to come. We think exports will be, next to private consumption, the main engine driving Polish economic growth.

At the end of March the cumulative 12-month C/A deficit reached €1.7bn which according to our estimates is c0.5% of GDP.

Core CPI at its all-time low

Core CPI after excluding food and energy prices eased to -0.4% y/y, its lowest ever since the comparable data is available (2001). All remaining core inflation measures are also in negative territory. Data indicates that deflation trends are spreading into the rising number of consumption goods.

Two-digit growth of M3 money supply in April

Flash data on M3 money supply in April showed a rise by 11.5% y/y versus 9.1% y/y in March. Slower growth of money supply in March was mainly due to a surprising slump in companies deposits from PLN235bn to PLN230bn. In April this effect was reversed and deposits climbed to PLN237bn. Growth rate of household deposits accelerated to 10.3% y/y from 9.5% y/y. This was partially due to FX effects. We can still observe a strong rise of cash in circulation – 16.8% y/y in April (as compared to 15.4% y/y in March).

Data on loans showed an acceleration, both in households (to 5.9% y/y from 4.2% y/y) and companies (to 10.8% y/y from 9.5% y/y). Acceleration in these sectors was also due to FX effect to some extent, but in our view also data corrected for exchange rates movements would show an acceleration.

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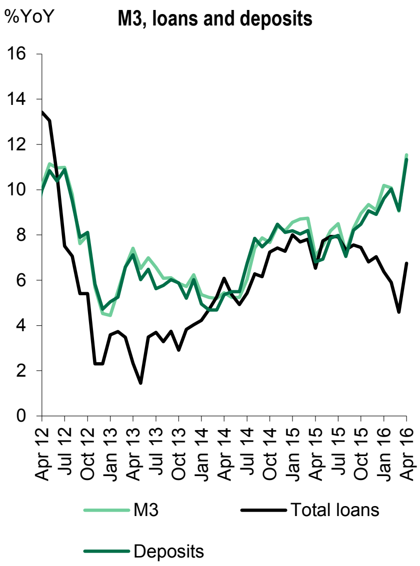

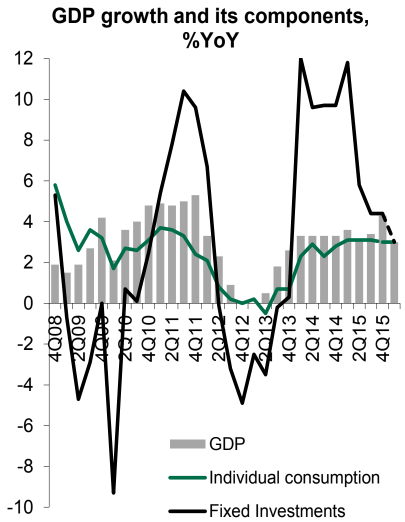

Slowdown in GDP growth

Economic growth reached 3.0% y/y in 1Q2016, considerably below market expectations (3.5% y/y). Seasonally adjusted data showed a decline by 0.1% q/q and this was the weakest reading since end of 2012. Even though the negative reading in q/q terms is primarily due to high base from 4Q2015 (1.3% q/q), the reading was indeed disappointing. We were expecting a slowdown in GDP growth, mostly due to weaker public investment, which was temporarily undermined by shift in two EU funds perspectives (weak results of construction are a strong argument confirming this view). We do not know yet the breakdown of GDP growth, but such a low figure suggest that either public investment was even weaker than we expected or the slowdown was visible also in private investment – there were some signals that this may be the case (e.g. NBP quick monitoring). On the other hand, there are no signs of deceleration in private consumption, which increased by c3% y/y in the first quarter, we estimate. Our expectations were supported by words of Halina Dmochowska, acting president of the Statistics Office, who said after the release that 1Q2016 saw a deleceration in investment (both public and private), contribution of net exports was slightly positive and economic growth was fueled mainly by consumer demand.

We forecast a rebound in GDP growth to c3.5% y/y in the following quarters. Private consumption is likely to accelerate under impact of strong labour market and 500+ child benefit programme. The biggest risk factor for Polish growth seems to be current situation abroad and worries that it may result in deceleration of economic growth in the euro zone.

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