

INSTANT COMMENT

12 August 2016

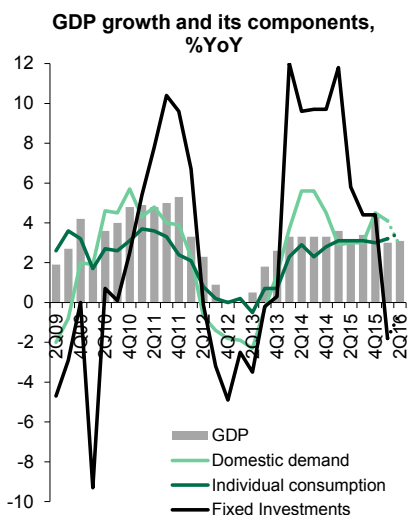
GDP growth failed to accelerate significantly in 2Q16

GDP growth in the second quarter amounted to 3.1% y/y, and did not differ much from that of the first quarter. Poland's government officials still expect a clear acceleration of economic growth in the second half of the year, but in our opinion the stabilization of growth is more likely (we forecast average GDP growth at 3.1% y/y in whole 2016). The private consumption acceleration under the influence of 500+ programme is not enough, in our view, to revive the economy, if exports and investment will not give an additional impulse.

Exports increased quite significantly in June, but we think that outlook for the rest of the year is not overly optimistic. At the same time, imports should grow faster as a consequence of higher consumption. All in all, we expect net exports' contribution to GDP growth will not be positive in the coming quarters.

CPI fell deeper below zero in July to -0.9% y/y and we estimate that core CPI reached -0.4% y/y. We expect negative CPI to persist nearly until the end of the year.

Less optimistic outlook for the economic growth and persisting deflation may make the MPC members' bias change gradually towards less hawkish and the market may start pricing-in rising chances for rate cuts yet before the year-end.



GDP growth stabilised in 2Q16

GDP growth in Poland in 2Q16 reached 3.1% y/y (vs. 3.0% in Q1), in line with our forecast and below market consensus. Seasonally adjusted growth reached 0.9% q/q (after -0.1% in Q1). We do not know the structure of growth yet (it will be available on August 30) but we estimate that the main engine of growth was private consumption (growing c.3.5% y/y), while investments and net exports had nearly zero contribution. Private consumption is likely to accelerate further in H2 (maybe even to nearly 5% y/y), fuelled by healthy labour income and money from 500+ benefits. But it will be not enough to boost GDP growth if exports and investments disappoint.. which unfortunately may happen, in our view. We have recently cut our export forecasts as GDP growth in the EU is apparently driven by domestic demand not exports – and this is not good for Polish producers and exporters as many of them are producers of intermediate goods for German and other European industries. So if Germans exporters suffer, we suffer too. On the investment front, we see some room for moderate pickup if the use of EU funds from the new financial framework accelerates. However, the lower business confidence and lower bank lending may be a drag for private sector investments, we think. Overall, we expect GDP growth to stabilize near 3% in the nearest quarters, with forecast for the entire 2016 at 3.1%.

GDP growth and its components (%YoY)

	2013	2014	2015	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
GDP	1.3	3.3	3.6	3.3	3.6	3.1	3.4	4.3	3.0	3.1
Domestic demand	-0.7	4.9	3.3	4.5	2.9	3.0	3.0	4.5	4.1	2.9**
Total consumption	0.7	3.1	3.1	3.8	2.8	2.5	2.6	4.5	3.4	3.6**
Private consumption	0.2	2.6	3.1	2.8	3.1	3.1	3.1	3.0	3.2	3.5**
Public consumption	2.2	4.9	3.5	7.2	1.8	0.8	0.9	8.7	4.4	4.0**
Gross accumulation	-5.8	12.6	4.1	6.5	3.4	4.9	4.8	4.5	8.1	-0.2**
Fixed investment	-1.1	9.8	6.1	9.7	11.8	5.8	4.4	4.4	-1.8	-0.5**
Net export *	1.9	-1.5	0.3	-1.2	0.8	0.2	0.4	-0.1	-0.9	0.3**

* contribution to GDP growth (percentage points); ** BZ WBK estimate;

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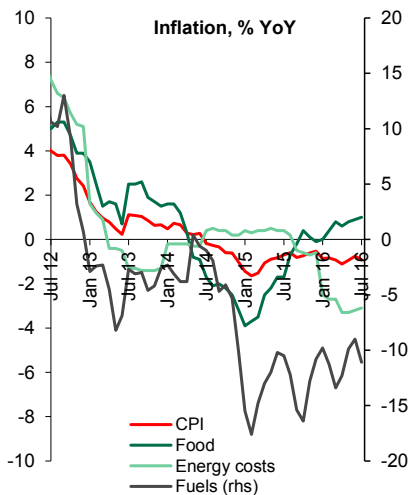
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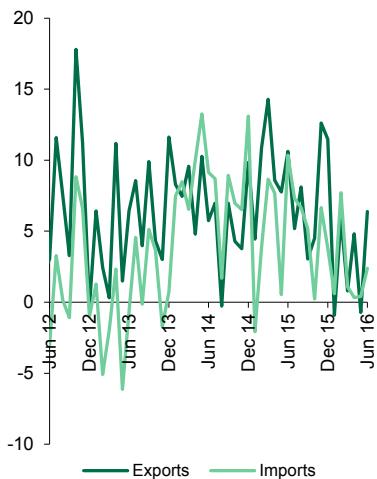
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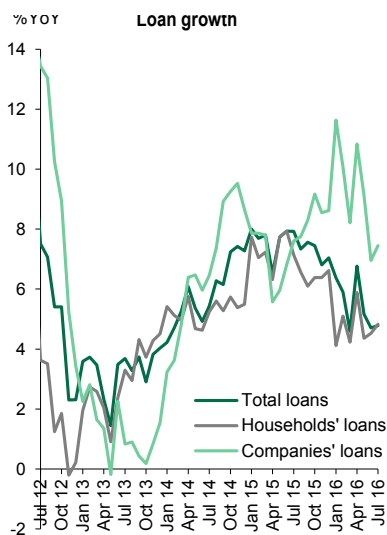
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Foreign trade turnover, % YoY



Loan growth



Polish MPC stressed in July that it was more optimistic than the NBP projection as regards GDP growth outlook, and it expects the economy to revive after weaker first quarter. So, if GDP growth fails to pick up, the MPC's hawkish bias may start changing into more dovish, and the market may gradually start pricing-in rising chances of monetary easing before the year-end.

Deflation will last almost until the year-end

Final outcome of the July's headline CPI inflation confirmed the flash reading of -0.9% y/y. As we expected, deepening of deflation was caused mainly by strong base effect in healthcare and communications and a decrease in fuel prices. On the other hand, prices of recreation and culture surprised to the upside. Food prices fell more or less in line with their seasonal pattern. As a result, we estimate that core inflation after excluding food and energy prices fell in July to -0.4% y/y (returning to the level observed in April-May).

In our opinion, in August deflation may again deepen and then will it start gradually diminish, reaching positive level in December for the first time in 2.5 years. In 2017 we expect a further gradual increase in consumer prices, supported by solid consumer spending, higher taxes (including a new tax on retail trade) and increasing growth of unit labor costs. Still, the prospect of achieving the NBP inflation target of 2.5% still seems very distant.

Better exports and imports in June

In June exports and imports increased markedly after disappointing and weak data in May. Exports grew by 6.4% y/y, while imports rose by 2.4% y/y. As a result surplus on trade balance reached €404mn. Despite trade balance improvement, the current account balance deteriorated and recorded deficit (-€203mn) due to worsen than expected results in services balance (€815mn), primary income (-€1409mn) and secondary income (-€13mn).

Despite an improvement in exports, outlook for the coming quarters are not overly optimistic in our view given the falling global trade volumes. At the same time, imports is likely to accelerate on spending fueled by 500+ programme. As a result, we do not expect net exports to have a positive contribution to the economic growth in Poland in the quarters to come.

Money supply growth slowed

Money supply growth decelerated in July to 10.7% y/y. Pace of households' deposits growth eased to 10.8% y/y but remained above the 1H16 average of 10%. At the same time, companies deposits remained at 8.4% y/y, below 1H16 average of c11%. Liabilities rose 4.8% y/y for households and 7.4% y/y for companies but rates of growth were clearly below 1H16 averages in both cases. Persisting uncertainty regarding domestic and global economic growth could in our view weigh on the loans growth in the months to come, particularly for companies.