

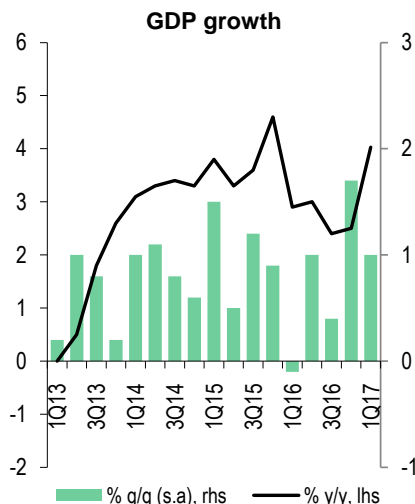
INSTANT COMMENT

16 May 2017

GDP growth accelerated to 4.0% y/y

Flash GDP data for 1Q17 in Poland showed a clear acceleration of growth versus 4Q16, from 2.5% to 4.0% y/y. We do not know the structure of growth yet at this stage. After the very strong monthly data for March about production and sales, the market consensus moved up to 3.9% y/y, however the yesterday's data about foreign trade suggested a caution about the 1Q17 result. Data from other countries in our region were also very strong – both Czechia (where growth accelerated from 2.3% to 2.9% y/y, versus expected 2.3%) and Hungary (acceleration from 1.6% to 4.1% y/y, expected 3.2%) surprised with the scale of economic rebound in the first quarter.

Now the market will be awaiting the Monetary Policy Council's response to the much better economic data at the tomorrow's press conference. We think the Council will keep its 'wait-and-see' approach, as despite the accelerating economic growth, the upward trend in inflation has decelerated and in the nearest months inflation rate will probably remain near 2% y/y (in May it could even drop a little). We think the NBP President will repeat tomorrow his pledge that interest rate hikes are very unlikely this year.



Clear acceleration of GDP growth in Poland and in the region

Flash GDP data for 1Q17 in Poland showed a clear acceleration of growth versus 4Q16, from 2.5% to 4.0% y/y. Our forecast was at 3.7% y/y, while market consensus moved even higher, to 3.9% y/y, before the data release. Improvement of GDP growth forecasts was supported by surprisingly strong monthly data about production and sales, especially for March, however the yesterday's data about foreign trade suggested a caution about 1Q17 result.

Seasonally adjusted GDP rose by 1% q/q (here the market expected 0.8%). Statistics office has also revised up the readings for the last three quarters of 2016. As a result, 4Q16 was the strongest quarter since the end of 2007, with +1.7% Q/Q growth. It emphasises the scale of economic revival 1Q – q/q growth was quite strong despite the high base effect.

An increase of 4% y/y in 1Q is a confirmation of a clear economic recovery in Poland and, therefore, a positive signal for the zloty and Polish assets. The zloty strengthened awaiting data publication by the Statistical Office today, especially as the GDP data released earlier this morning for Hungary and the Czech Republic clearly outperformed the market expectations.

Detailed 1Q17 numbers will be released on May 31 but we may suspect that all engines of economic growth (consumption, exports and investments) were working again. If this is confirmed, then 4% GDP growth in whole 2017 will look quite possible.

We are now just one day before the MPC decision. In our view, the Council will refrain from any changes in its rhetoric despite strong economic performance in 1Q waiting for a much more noticeable rise in inflation, particularly for its core measure, which we do not expect in the months to come. That is why we still think any rate hikes could materialize in 2018, rather no sooner than in 2H18.

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