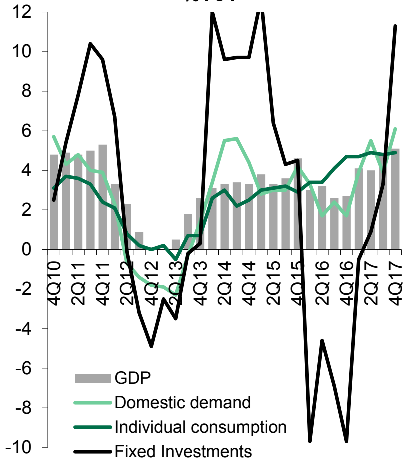
ECONOMIC COMMENT

28 February 2018

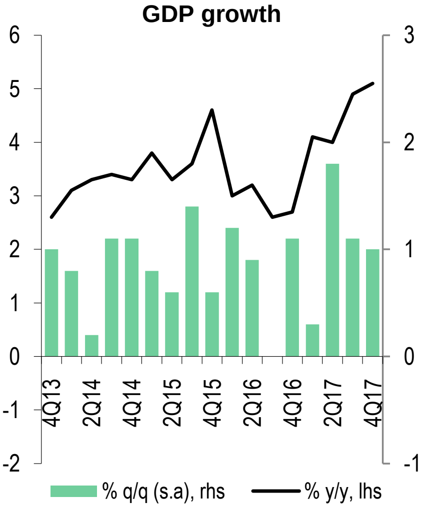
Long-awaited investment rebound in 4Q17

GDP growth in 4Q17 was confirmed at 5.1% y/y, up from 4.9% in 3Q. We finally saw a strong rebound of fixed investments, which recorded 11.3% y/y in 4Q vs. 3.3% in the previous quarter. Net exports were much weaker than we expected due to a rebound of imports, but at the same time inventory changes had a much smaller negative contribution than we had estimated. Private consumption grew by 4.9% y/y, similar to the previous quarters of 2017 - but unlike in the previous quarters – it was topped by investments as the main pillar of economic growth. We expect the GDP growth to stay close to 5% y/y also in 1Q, given the maintained very high business and consumer optimism.

GDP growth and its components, %YoY



GDP growth



GDP growth in 4Q17 was confirmed at 5.1% y/y, up from 4.9% in 3Q. We finally saw a strong rebound of fixed investments, which recorded 11.3% y/y in 4Q vs. 3.3% in the previous quarter. This was what one could expect after the Stats Office released preliminary full-year data for 2017. At the same time, in 4Q, net exports were much weaker than we expected, even though we signaled some downside risk in this category. It deducted 0.8 pp from the headline growth, while it seemed that a neutral outcome is possible, judging by the earlier partial data on foreign trade. It did not influence GDP growth as inventory changes had a much smaller negative contribution than we expected and this served as an offsetting factor. Strong rise of imports was responsible for the negative surprise in net exports. Private consumption grew by 4.9% y/y, similar to the previous quarters of 2017 - but unlike in the previous quarters – it was topped by investments as the main pillar of economic growth.

There is anecdotal evidence that the acceleration of imports and also a part of the investment rise is due to one-off purchases of aircraft (by the domestic carrier and/or by the government).

On the supply side, industry, trade, construction and transport were responsible for most of the GDP growth, even though construction decelerated from c20% y/y to c10%. However at the start of 2018 we saw a huge rebound of building activity and some slowdown in y/y pace of industrial output, so the structure may look somewhat different in 1Q18. There is even evidence in q/q seasonally adjusted GDP data that industry performance softened in 4Q (to 1.3%, from 1.8%, the weakest print since 3Q16).

We expect the GDP growth to stay close to 5% y/y also in 1Q, given the maintained very high business and consumer optimism, but the next readings might be somewhat lower.

GDP growth and its components (% y/y)

	2015	2016	2017	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	3.8	2.9	4.6	2.7	4.1	4.0	4.9	5.1
Domestic demand	3.3	2.2	4.9	1.7	3.9	5.5	3.9	6.1
Total consumption	2.8	3.4	4.3	3.0	3.7	4.2	4.1	5.0
Private consumption	3.0	3.9	4.8	4.7	4.7	4.9	4.8	4.9
Public consumption	2.4	1.7	2.7	-1.4	0.5	2.1	1.9	5.4
Gross accumulation	4.9	-1.9	7.5	-1.6	5.1	11.6	3.3	8.8
Fixed investment	6.1	-7.9	5.2	-9.7	-0.5	0.9	3.3	11.3
Net export *	0.6	0.7	-0.2	1.1	0.4	-1.3	1.1	-0.8

* contribution to GDP growth (percentage points)

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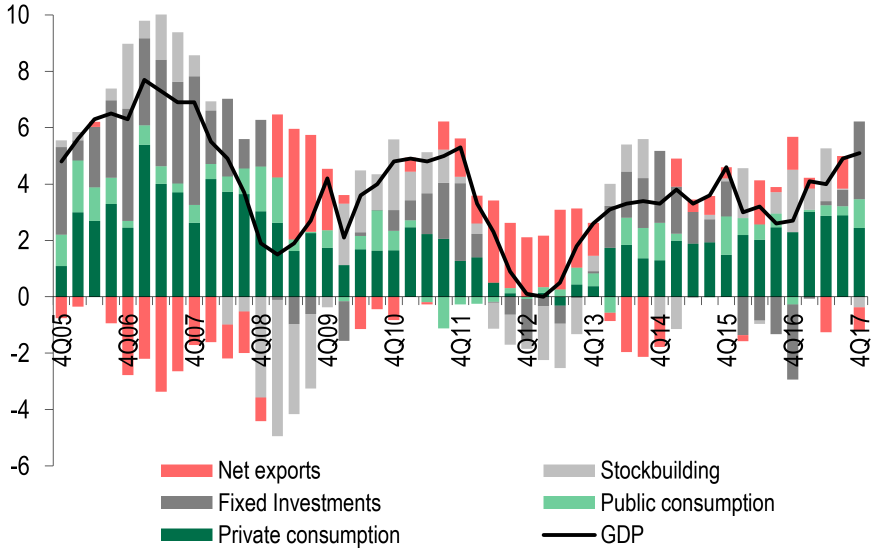
GDP growth breakdown, % y/y



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