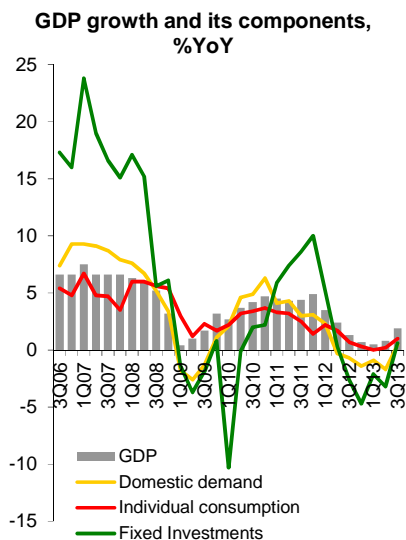


INSTANT COMMENT

29 November 2013

Domestic demand bottoming-out gradually

GDP growth accelerated to 1.9%YoY in 3Q2013 and this development was due to higher growth rate of individual consumption (1.0%YoY) and rise in fixed investments (0.6%YoY), which expanded for the first time after four quarters of declines. Revival of domestic demand (0.5%YoY) is still modest, but we are expecting that it will be gaining steam and will become an important contributor to the economic growth in 2014. At the same time, exports are advancing at a high rate, which may rise even more in the upcoming quarters thanks to continuation of economic recovery worldwide. GDP figures confirmed that Polish economy is recovering: not only accelerating but also showing a more balanced growth. We are forecasting that GDP growth can accelerate from ca. 1.4% in 2013 to ca. 3% in 2014. We will present our detailed and revised GDP forecasts in our next monthly reports.



GDP growth in Poland reached 1.9%YoY in Q3 2013 and was consistent with flash estimate published two weeks ago. The data confirmed the economy is gradually gaining steam and that this process – in line with our expectations – is not anymore based entirely on rapid exports' expansion, but more and more reliant on domestic demand. Domestic demand growth in Q3 was positive for the first time since Q1 2012 and reached 0.5%YoY. This was driven by a revival in consumer demand (individual consumption increased by 1%YoY, after three quarters of stagnation) and – what seems particularly important – some pickup in investment activity (fixed investment rose by 0.6%YoY, following four straight quarters of clear declines). While consumption growth was roughly consistent with our expectations, pickup in investments was a positive surprise. Most likely, it was driven by higher investment activity in the private sector. To some extent it has been suggested earlier by growing firms' demand for investment loans or more recently by data about companies' financial results in Q3, however we did not expect this rebound to be strong enough to compensate for weakness in public investments already in Q3. In our view, this gives reason to be slightly more optimistic about the pace of domestic demand growth in next quarters. At the same time, external demand is still a significant engine driving the rebound of Polish economy – pace of growth of exports accelerated in Q3 to 6.4%YoY (the highest number in 2.5 years) and taking under account forecasts showing further improvement of economic conditions abroad (particularly in Germany), we expect even higher growth rates of external trade in coming quarters. However, given our assumptions of gradual acceleration of domestic demand, imports will also gain steam. Still, we expect that both in 2013 and 2014 net exports will remain positive (though it will diminish gradually).

Data on GDP will surely not lead to any significant change of the MPC bias in monetary policy. Declaration on keeping interest rates stable at least until-2014 remains valid and no earlier changes should be expected. Decisions on the level of interest rates in 2H14 will largely depend on the strength of domestic demand rebound and its impact on inflation. Furthermore, any changes of number of MPC members may not be meaningless if the parliament approves the new draft of bill on the central bank proposed by the Ministry of Finance soon (assuming extending the MPC by three more members in 2014).

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GDP growth and its components (%YoY)

	2010	2011	2012	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13
GDP	3.9	4.5	1.9	2.3	1.3	0.7	0.5	0.8	1.9
Domestic demand	4.6	3.6	-0.1	-0.3	-0.7	-1.4	-0.9	-1.7	0.5
Total consumption	3.4	1.6	1.0	1.4	0.8	0.4	0.0	1.1	1.2
Individual consumption	3.2	2.6	1.2	1.7	0.7	0.3	0.0	0.2	1.0
Public consumption	4.1	-1.7	0.2	0.4	1.2	0.6	-0.1	4.3	1.7
Gross accumulation	9.3	11.2	-4.2	-6.9	-6.5	-5.5	-5.9	-13.6	-2.4
Gross fixed investment	-0.4	8.5	-1.7	0.3	-2.6	-4.7	-2.1	-3.2	0.6
Net exports*	-0.7	0.9	2.0	2.7	2.0	2.0	1.3	2.5	1.4

* contribution to GDP growth (in pct. points)

Breakdown of GDP growth (%YoY)

