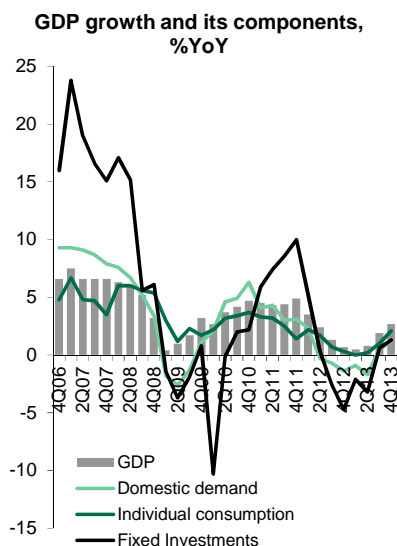


INSTANT COMMENT

28 February 2014

GDP expanded in line with expectations

GDP growth amounted to 2.7%YoY in 4Q2013 (as compared to 1.9%YoY in Q3), in line with flash estimate shown by the CSO a couple of weeks ago. The data confirmed that the economy keeps on accelerating and that this process – in line with our expectations – is based not only on dynamic expansion of exports, but also increasingly more on recovering domestic demand. Private consumption advanced by 2.1%YoY – at the fastest pace since 1Q2012. Recovery was also continued in investment activity – gross capital formation increased by 1.3%YoY. Contribution of domestic demand to GDP growth amounted to 1.2pp while net exports added 1.5pp, so we can say that the Polish economy is no longer flying on one engine only. Domestic demand is still based mostly on private consumption, but we are expecting investment to join in a couple of quarters. We are expecting a further acceleration of growth in the upcoming quarters, to ca. 4%YoY at the year-end (and to 3.5% on average in the entire year). Figures were neutral from the MPC's point of view and we think they support the decision not to extend the current *forward guidance*.



GDP growth in 4Q2013 reached 2.7%YoY (as compared to 1.9%YoY in Q3), in line with flash estimate shown by the CSO a couple of weeks ago. Seasonally adjusted growth amounted to 2.2%YoY and 0.6%QoQ (i.e. slightly less than in 3Q2013: 0.7%QoQ). Annualized growth rate amounted to 2.4%YoY. What is important, the data confirmed that the economy keeps on accelerating and that this process – in line with our expectations – is based not only on dynamic expansion of exports, but also increasingly more on recovering domestic demand. Interestingly, our estimates show that GDP deflator was negative in 4Q2013 and amounted to -0.1%YoY (for the first time in more than 10 years). This is showing that at the end of 2013 Polish economy was balancing on the verge of deflation.

Private consumption increased by 2.1%YoY in real terms, at the fastest pace since 1Q2012. Let us remind that yet at the beginning of the past year the consumer demand was in stagnation (three consecutive quarters of roughly zero growth). We expect private consumption to strengthen later in the year, mainly due to observed improvement in the labour market. A revival was also recorded in investment activity – gross capital formation increased by 1.3%YoY. This is not an outstanding result, but it is worth to be aware that this result is dragged down by falling (for a second consecutive year) public investments. This means that private investments could have expanded by 4-5%YoY at the end of 2013. This shows that companies are more optimistic regarding the expected economic conditions. Domestic demand increased 1.2%YoY in total.

Exports rose by 6.3%YoY, imports by 2.9%YoY and net exports added 1.5pp to the pace of GDP growth showing that it remains the main engine of the economic revival. It is worth to mention that contribution of domestic demand was similar (1.2pp) so we may say that there is no longer only one engine working in the Polish economy. Domestic demand is still driven mainly by private consumption (which added 1.1pp to GDP growth), but we expect investments to join in the course of the coming quarters.

All in all, today's data did not surprise and confirmed, just as expected, an improvement in private consumption and investments. We expect further acceleration of economic growth in coming quarters to ca. 4%YoY at the end of the year and 3.5%YoY on average in 2014. These data are neutral from the monetary policy point of view and support the MPC decision not to extend current *forward guidance* (claiming stable rates at least until mid-2014) next week.

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GDP growth and its components (%YoY)

	2011	2012	2013	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
GDP	4.5	1.9	1.6	1.3	0.7	0.5	0.8	1.9	2.7
Domestic demand	3.6	-0.1	-0.2	-0.7	-1.4	-0.9	-1.7	0.5	1.2
Total consumption	1.6	1.0	1.1	0.8	0.4	0.0	1.1	1.2	2.1
Individual consumption	2.6	1.2	0.8	0.7	0.3	0.0	0.2	1.0	2.1
Public consumption	-1.7	0.2	2.0	1.2	0.6	-0.1	4.3	1.7	2.1
Gross accumulation	11.2	-4.2	-4.9	-6.5	-5.5	-5.9	-13.6	-2.4	-1.0
Gross fixed investment	8.5	-1.7	-0.4	-2.6	-4.7	-2.1	-3.2	0.6	1.3
Net exports*	0.9	2.0	1.8	2.0	2.0	1.3	2.5	1.4	1.5

* contribution to GDP growth (in pct. points)

Breakdown of GDP growth (%YoY)

