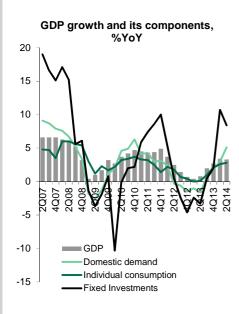


# **INSTANT COMMENT**

29 August 2014

## Positive surprise from investment growth

GDP growth reached 3.3%YoY in 2Q14, a notch higher than the flash estimate 3.2%YoY released several weeks ago, and only marginally lower than 3.4%YoY recorded in the first quarter. Private consumption growth accelerated to 2.8%YoY, in line with our forecast, while fixed investments delivered a big positive surprise, rising 8.4%YoY, well above our expectations. It appears that a surge in investment spending in 1Q14 by almost 11%YoY was to much lower degree than we assumed boosted by one-off effects (very good weather, temporary tax allowances). Total domestic demand soared 5.1%YoY, at fastest pace since the end of 2010. Data is clearly a positive surprise (one of the very few in recent weeks), and we think that it supports our view that the MPC will prefer to wait for more information before making any decision on monetary easing. Still, next quarters will probably see GDP growth in Poland sliding below 3%YoY, amid decelerating external demand and no significant boost in domestic market. Inflation rate will also remain very low. Thus, we expect that the MPC will decide to cut main interest rates in by 75bp in total in October-November.



Poland's GDP grew by 3.3%YoY in the second quarter, i.e. a notch higher than the flash estimate 3.2%YoY released by the statistical office in mid-August (3.2%YoY), and only marginally lower than 3.4%YoY recorded in the first guarter. What is interesting, the domestic demand accelerated significantly, to 5.1%YoY (the highest growth since the final quarter of 2010). To large extent, it resulted from strong positive contribution of inventories to GDP growth, which in the second quarter amounted to 1.7pp (mainly due to the effect of very low base in the second quarter of 2013). However, this factor was fully anticipated. The biggest positive surprise in our view was the fixed investment growth, surging by 8.4%YoY in the second quarter (vs 10.7% in the first quarter). We had expected investment to slow down much stronger (to c3%YoY), assuming a correction in the investment activity after expiry of one-off effects present in the first quarter (very good weather, temporary tax allowances which boosted car purchases). It appears that a surge in investment spending at the beginning of the year was to much lower degree than we assumed boosted by the mentioned one-off effects and the underlying trend was continued also in the second quarter. Indeed, growth of investment loans for corporate sector did not signal any slowdown over the past months, which suggested that firm's activity in this area remains strong. Private consumption growth accelerated in the second quarter to 2.8%YoY, in line with our expectations. We expect that a decent growth of households' real income will keep supporting further growth of consumer demand at a similar pace in the coming quarters.

Higher than expected domestic demand growth was accompanied by worse balance of external trade. Net exports' influence on GDP growth was negative for the first time since the end of 2010 and amounted to -1.6 pct. points. In our opinion the external trade balance will continue lowering GDP growth in the coming quarters.

Although the GDP growth and its structure in 2Q14 was better than we had expected, we are afraid that the momentum of GDP growth may slow down further in the second half of the year, probably sliding below 3%YoY, because of worse external environment, negatively affecting Polish exporters, and lack of clear impulses boosting the local demand. Average GDP growth in 2014 may be slightly above 3% in our view. We will publish the updated macro forecasts in the nearest monthly report.

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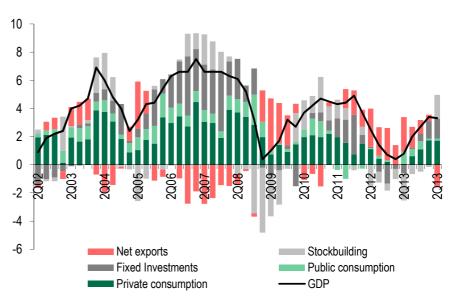


#### GDP growth and its components (%YoY)

	2011	2012	2013	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
GDP	4.5	2.0	1.6	0.4	0.8	2.0	2.7	3.4	3.3
Domestic demand	3.6	-0.1	0.0	-1.0	-1.6	0.6	1.8	3.0	5.1
Total consumption	1.6	1.0	1.2	0.0	1.2	1.4	2.4	2.2	2.3
Individual consumption	2.6	1.3	0.8	0.0	0.1	1.0	2.1	2.6	2.8
Public consumption	-1.7	0.2	2.8	0.1	5.0	3.0	3.1	0.7	0.8
Gross accumulation	11.2	-4.0	-4.7	-7.0	-13.5	-2.9	0.2	8.5	19.7
Gross fixed investment	8.5	-1.6	-0.2	-2.4	-3.3	0.5	2.0	10.7	8.4
Net exports*	0.9	2.1	1.6	1.5	2.3	1.5	1.0	0.5	-1.6

<sup>\*</sup> contribution to GDP growth (in pct. points)

### Breakdown of GDP growth (%YoY)



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