

INSTANT COMMENT

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Polish economy keeps surprising to the upside

Polish exports surged in March 13.7%YoY, driven by reviving demand from the European Union, and current account reached record-high surplus (€1.9bn). 12M rolling current account reached -0.6% of GDP, which is the smallest deficit since mid-90. We think that rapid export growth should continue, pushing economic growth up. Flash estimate of 1Q15 GDP growth reached 3.5%YoY, slightly exceeding forecasts, and we see scope for its upward revision once the exceptionally good results of foreign trade will be fully taken into account. We expect to see more good news from Polish economy next week, confirming that economic growth keeps accelerating in 2Q15.

Strong exports, large current account surplus in March

In March Poland recorded current account surplus €1938m, which is probably the highest monthly surplus ever recorded (and for sure the highest since comparable data are available). Moreover, the data for February were revised upwards from €116m to €225m. As a result, the 12-month rolling current account balance reached -€2.4bn, and the current account-to-GDP ratio dropped in March to -0.6%, according to our estimates, which is the lowest deficit since the mid-90.

In line with our forecast, export growth surged in March 13.7%YoY, while import growth accelerated to 9.8%YoY. We think that strong export recovery was driven mainly by a revival of demand from European Union, Germany in particular. As a result, trade balance reached €674m and was in surplus for the third month in a row. At the same time, there was a significant improvement in services balance, where surplus reached €923m in March.

In general, in 1Q15 the balance of goods and services reached €4.4bn (PLN18.6bn) surplus, as compared to €1.9 (PLN8.1bn) in 1Q14. We think that such significant improvement had a positive impact on GDP growth, and it cannot be excluded that the flash 1Q GDP estimate that was released earlier today (see below) will be revised up at the end of this month, after the statistical office takes into account very positive foreign trade data.

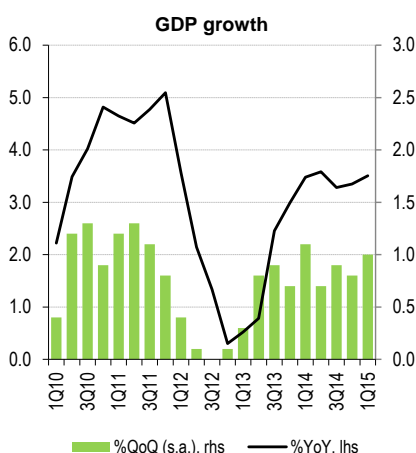
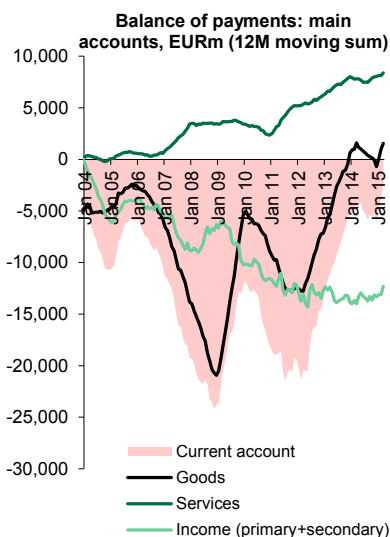
GDP growth higher than expected... again!

GDP growth accelerated more than expected, to 3.5%YoY in 1Q15 according to flash data. Seasonally adjusted GDP growth rose 1%QoQ, accelerating from 0.9% in 3Q14 and 0.8% in 4Q14.

We do not know the structure of growth yet, but according to our estimates based on high-frequency data, it was driven by all possible factors: (1) accelerating private consumption (labour market booming, real wages surging); (2) strong fixed investments (in both private and public sectors); (3) re-acceleration of exports due to reviving demand from the EU. We estimate that net export has positively affected GDP growth in 1Q15, for the first time since 2013. More detailed data on GDP growth will be released on May 29.

We think that the positive trend will continue in coming quarters, and GDP growth may accelerate to 4% before the end of the year. At this point it is already clear, in our view, that average GDP growth in 2015 will be higher than 3.6%, which we predicted recently.

Polish economic data keep surprising to the upside and we expect that positive surprises will continue next week, when we will see new set of important indicators (industrial output, retail sales, wages and employment), confirming that economic growth keeps accelerating.



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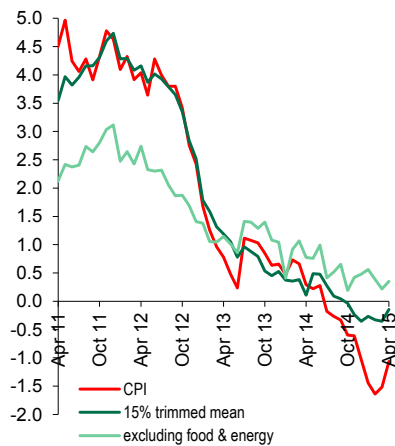
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CPI and core inflation, %YoY



Core inflation slightly up

All core inflation measures increased in April, with core inflation excluding food and energy prices climbing to 0.4%YoY from 0.2%YoY in March, mainly due to higher prices in telecommunication. We expect a further rise in core inflation, most likely to slightly above 1%YoY at the year-end.

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