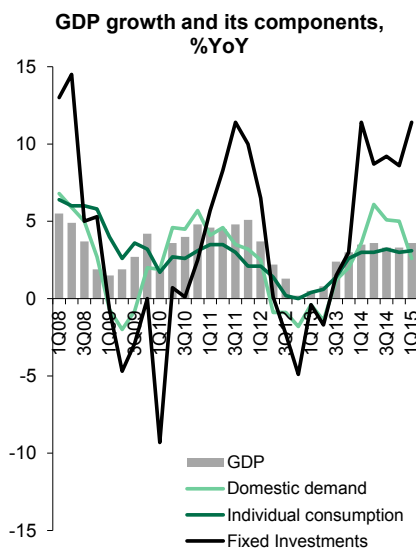


INSTANT COMMENT

29 May 2015

All the growth engines are on

1Q15 GDP growth has been revised up slightly to 3.6%YoY from flash estimate 3.5%YoY, confirming our bet after strong foreign trade data for March. Net exports added 1.1 pct. point to GDP growth, while its contribution was strongly negative in the four preceding quarters. However, the GDP was supported also by other components – private consumption growth accelerated to 3.1%YoY, while fixed investments soared 11.4%YoY (highest pace since 1Q14, despite high base effect). While total domestic demand decelerated to 2.6%YoY, it was mainly due to drop of inventories. In general, the data were strong, showing a healthy and broad-based economic growth at the start of 2015. We think that positive trends in all three components (consumption, investments, exports) will continue, driving Polish GDP growth higher in the following quarters, up to 4%YoY in 4Q. We estimate average GDP growth in 2015 at 3.8%.



Polish 1Q15 GDP growth reached 3.6% YoY, that is slightly above the flash estimate at 3.5% released by the state office in mid-May. The upward revision seemed quite likely to us due to the strong March foreign trade data that probably have not been included fully yet in the flash GDP number. Seasonally adjusted GDP growth reached 1%QoQ.

Net exports had strong positive impact on GDP growth, adding as much as 1.1pp (after four quarters of strongly negative contribution). This was due to a considerable acceleration in export growth (8%YoY, the highest growth rate since 3Q2013) and deceleration of imports (also in real terms, showing that weakness of imports was not only due to declining commodity prices). Improvement in foreign trade was mainly due to economic revival in the euro zone, which will be continued in the following quarters, in our view. Thus, we are expecting that net exports will continue to be positive for the GDP growth, yet possibly not as strongly as in 1Q2015, as imports are likely to accelerate given strong consumption and investment.

Growth rate of domestic demand was visibly lower in Q1 and reached 2.6%YoY (vs. 5.0%YoY in Q4), which is the weakest result since end of 2013, but this was mainly due to a strong drop in inventories – this factor deducted 1.5pp from the GDP growth. Still, this was not surprising, given the strong improvement in net exports – these two components are strongly correlated. At the same time, other components of the domestic demand remained in the upward trend. Private consumption accelerated to 3.1%YoY and fixed investment to 11.4%YoY. The latter result is especially positive, as high statistical base from last year (mild winter and temporary VAT allowance for cars) made us believe that growth rate of investment may decelerate a bit. Meanwhile, it has actually rebounded and showed the same result as in exceptionally good 1Q14. This proves in our view that the economic recovery is firm and persistent – companies are not worried about future and are not cutting spending for further expansion, probably seeing significant flow of the new orders. Stable growth in the private consumption should also continue later in the year, in our view, supported by falling unemployment and rising real wages. Notice that although the acceleration of annual consumption growth was only moderate, quarterly increase after the seasonal adjustment reached 1.1%, which is the best result since 4Q08.

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GDP growth and its components (%YoY)

	2012	2013	2014	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15
GDP	1.8	1.7	3.4	2.4	3.0	3.5	3.6	3.3	3.3	3.6
Domestic demand	-0.4	0.4	4.9	1.2	2.0	3.6	6.1	5.1	5.0	2.6
Total consumption	0.7	1.4	3.4	1.8	2.5	2.5	3.7	3.6	3.8	3.1
Private consumption	1.0	1.2	3.1	1.4	2.6	3.0	3.0	3.2	3.0	3.1
Public consumption	0.2	2.1	4.7	3.5	2.2	0.5	6.4	5.4	6.4	3.3
Gross accumulation	-4.3	-3.5	11.4	-1.5	0.7	10.9	18.1	11.4	8.0	-0.5
Fixed investment	-1.5	1.1	9.2	1.5	3.0	11.4	8.7	9.2	8.6	11.4
Net export *	2.2	1.3	-1.4	1.3	1.0	0.0	-2.3	-1.6	-1.5	1.1

* contribution to GDP growth (percentage points)

Breakdown of GDP growth (%YoY)

