

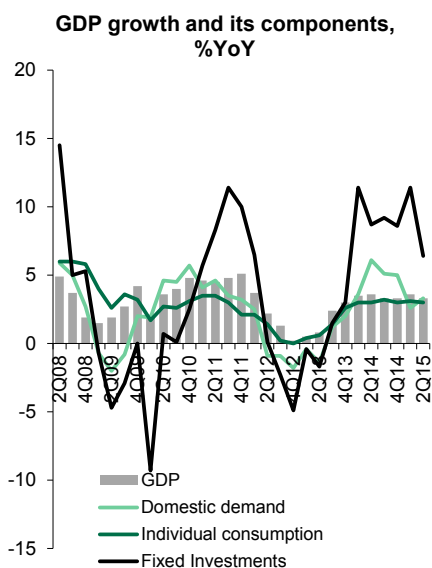
INSTANT COMMENT

28 August 2015

Weaker investment growth weighed on GDP

GDP growth reached 3.3%YoY in 2Q15, in line with flash estimate, slowing from 3.6%YoY in 1Q. Domestic demand growth accelerated to 3.3%YoY, despite slowdown in investment growth (to 6.4%YoY, lowest since 4Q13) and stable consumption growth (3%YoY), as change in inventories surprised to the upside. Net exports' contribution to GDP growth decreased amid deceleration in both exports and imports. Seasonally adjusted GDP growth remained quite robust, at 0.9%QoQ.

The structure of GDP growth in 2Q15 (in particular, notable investment slowdown) raises our doubts about the pace of expansion in the second year-half. Private consumption growth should remain robust, supported by falling unemployment and rising labour income, and export growth is even likely to accelerate, fuelled by economic revival in the euro zone. However, investment growth is not likely to re-accelerate significantly. We still think that GDP growth may accelerate in 2H15, but probably not as much as we previously anticipated. We are still working on the forecast revision, but at this point it seems that Poland's growth in 2015 will be slightly slower than earlier predicted and may not reach 4%YoY in the final quarter. Nevertheless, this is a scenario of moderate economic expansion, which does not require additional monetary stimulus, in our view.



Pace of the GDP growth reached 3.3% in 2Q, in line with the flash estimate released in mid-August. The detailed breakdown revealed some surprises. First, investments' growth decelerated to 6.4% YoY, more than we had expected, and was nearly a half of what has been recorded in 1Q15. Second, the below-consensus investment growth has been offset by a change of inventories, and as a result the total gross accumulation grew at a robust pace above 5%. That is why the 2Q showed an acceleration in the domestic demand growth as the pace of private consumption growth remained roughly stable at 3%, in line with forecasts and close to results seen in the previous quarters. The main drag on the GDP growth came from the lower contribution of net exports, that fell to zero from +1.1pp in 1Q. Both exports and imports decelerated but the slowdown of the former was stronger. Interestingly, despite a significant decline in the commodity prices and roughly stable zloty's exchange rate vs. the main currencies, the deflator of imports was only slightly below zero (-0.6%).

What do today's data mean for the upcoming quarters? Surely, the lower growth rate of investment poses a downward risk for our forecast. We used to assume that investments may expand by 8-9%YoY in the following quarters, while growth slower by 2pp would deduct even 0.5pp from the GDP growth in 2H. On the other hand, the solid growth of consumption should be maintained or even accelerate taking into account that it was underperforming disposable income growth in the previous quarters, which gives some room for acceleration of consumption growth in 2H. Additionally, lower investment growth may result in lower imports, which – assuming solid growth of exports (or even its acceleration) – would translate into higher net exports contribution. In general, downward risk for our GDP forecasts (3.7% in 3Q and 4.0% in 4Q) probably amounts to c0.2-0.3pp. This is more or less similar to scale of upward surprise in 2Q. Growth in entire 2015 will be closer to 3.5% than 4.0% and forecast of 3.5% for 2016 is still realistic. Our revised forecasts will be presented in detail in the upcoming monthly report.

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854, Warszawa fax +48 22 586 83 40

email: ekonomia@bzwbk.pl Web site: <http://www.bzwbk.pl>

Maciej Reluga (Chief Economist) +48 22 534 18 88

Piotr Bielski +48 22 534 18 87

Agnieszka Decewicz +48 22 534 18 86

Marcin Luziński +48 22 534 18 85

Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400

GDP growth and its components (%YoY)

	2012	2013	2014	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
GDP	1.8	1.7	3.4	3.0	3.5	3.6	3.3	3.3	3.6	3.3
Domestic demand	-0.4	0.4	4.9	2.0	3.6	6.1	5.1	5.0	2.6	3.3
Total consumption	0.7	1.4	3.4	2.5	2.5	3.7	3.6	3.8	3.1	2.9
Private consumption	1.0	1.2	3.1	2.6	3.0	3.0	3.2	3.0	3.1	3.0
Public consumption	0.2	2.1	4.7	2.2	0.5	6.4	5.4	6.4	3.3	2.4
Gross accumulation	-4.3	-3.5	11.4	0.7	10.9	18.1	11.4	8.0	-0.5	5.2
Fixed investment	-1.5	1.1	9.2	3.0	11.4	8.7	9.2	8.6	11.4	6.4
Net export *	2.2	1.3	-1.4	1.0	0.0	-2.3	-1.6	-1.5	1.1	0.0

* contribution to GDP growth (percentage points)

Breakdown of GDP growth (%YoY)

