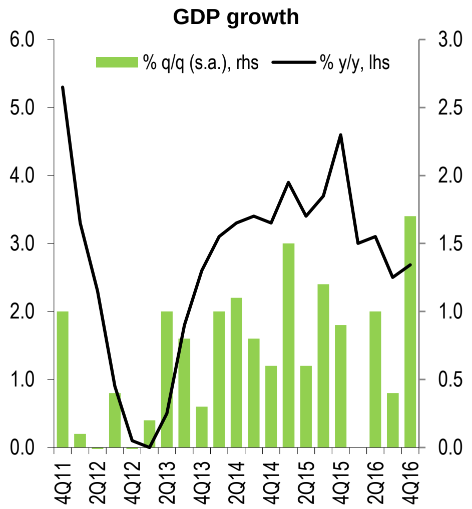
INSTANT COMMENT

14 February 2017

We did not fall in love with 4Q16 GDP data

GDP growth in 4Q16 accelerated to 2.7% y/y and was above our forecast and market consensus (both at 2.5% y/y). It should be noted that better-than-expected GDP in 4Q16 does not imply better outlook for 2017. The main source of positive surprise in the fourth quarter was the shift in time of government spending, which, according to our estimates, boosted GDP growth in 4Q16 by c0.7pp. This means that the 'underlying' growth in 4Q16, without this one-off effect, was close to 2% y/y. Moreover, since the expenditures were moved to 2016, they would not appear this year, which implies, ceteris paribus, weaker public consumption growth in 1Q17 and 4Q17. We keep our GDP growth forecast for 2017 unchanged at 2.8%.

Money supply M3 increased in January by 8.5% y/y, well below our forecast (9.5%) and market consensus (9.2%). Slower than expected M3 growth resulted from: low pace of cash growth (12.7% y/y versus 16.5% y/y in December) and households deposit (8.0% y/y versus 9.1% y/y in December).



Shift in public spending boosted GDP growth in 4Q16

GDP growth accelerated to 2.7% y/y in 4Q16 and was above our forecast and market consensus (both at 2.5% y/y). Yet, this reading was consistent with previously published GDP data for the entire year (as we reported earlier, the full-year GDP growth of 2.8% implied an increase in 4Q16 in the range of 2.4-2.7% y/y). Seasonally adjusted GDP growth increased 1.7% q/q, which was the highest rise since 2007.

This was the flash reading so we do not know the detailed breakdown of growth yet, although it can be estimated roughly from the data for the entire year released earlier. According to our estimation the private consumption growth was around 4% y/y, being the main driver of economic growth. Public consumption also surged and strongly contributed to Poland's economic activity, which, in our view, resulted from the Ministry of Finance's decision to shift some public spending from 2017 to December 2016 in order to 'smooth' budget path in 2016-2017. GDP was also boosted by a significant increase in inventories (adding more than 1 pp to growth). Meanwhile, investments did not show any positive surprise and kept falling at a pace nearly 6% y/y.

Please note that, contrary to what one might think at first glance, better-than-expected GDP in 4Q16 does not improve the outlook for 2017. The main source of positive surprise was the shift in time of government spending, which, according to our estimates, boosted GDP growth in 4Q16 even by c0.7pp. This means that the 'underlying' GDP growth without this one-off effect was close to 2% y/y. However, since there was a shift in spending, it is obvious that those expenditures will not appear in this year's statistics, which implies, ceteris paribus, weaker public consumption growth in 1Q17 and 4Q17. This is one of the reasons why for the time being we are leaving our 2017 forecast unchanged at 2.8%. The second reason is that the most recent German economic data look somewhat disappointing to us and may imply slower revival of Polish exports in the coming quarters. Private consumption is likely to remain the main driver of the economic growth in Poland this year, particularly in the first half, while later in the year it may start slowing. Investments are expected to rebound but this process is likely to be slow and the annual change may remain in the negative territory until around mid-2017.

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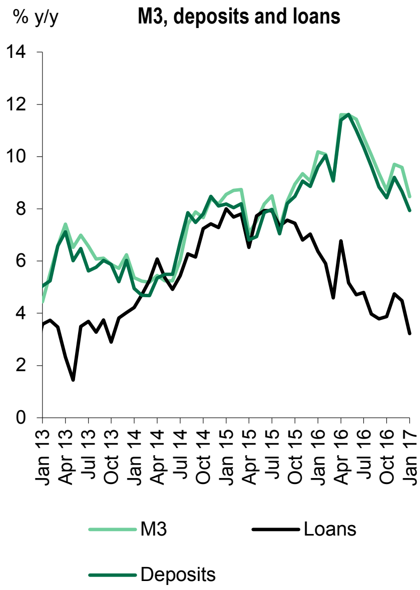
GDP growth and its components (% y/y)

	2014	2015	2016	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
GDP	3.3	3.9	2.8	3.9	3.4	3.7	4.6	3.0	3.1	2.5	2.7
Domestic demand	4.7	3.4	2.8	3.0	3.1	3.0	4.3	3.9	2.2	2.9	*2.4***
Total consumption	2.8	3.0	3.6	2.8	2.5	2.5	4.1	3.3	3.4	4.1	*3.8***
Private consumption	2.6	3.2	3.6	3.2	3.3	3.3	3.1	3.2	3.3	3.9	*4.0***
Public consumption	4.9	3.5	4.0**	1.3	-0.2	-0.2	7.1	4.2	3.9	4.9	*3.3***
Gross accumulation	12.8	4.9	-0.3	3.9	5.5	5.3	4.7	7.6	-2.8	-1.7	*-1.0***
Fixed investment	10.0	6.1	-5.5	12.1	6.1	4.7	4.5	-2.2	-5.0	-7.7	*-5.8***
Net export *	-1.3	0.6	0.1**	1.0	0.4	0.7	0.4	-0.7	1.0	-0.4	*0.4***

* contribution to GDP growth (percentage points); ** BZ WBK estimate



Slower growth of money supply M3

Money supply M3 increased in January by 8.5% y/y, well below our forecast (9.5%) and market consensus (9.2%). Slower than expected M3 growth resulted from: low pace of cash growth (12.7% y/y versus 16.5% y/y in December) and households deposit (8.0% y/y versus 9.1% y/y in December). Increase in other categories was rather stable. In our opinion, January's changes in money supply partly resulted from earlier payments of EU funds for farmers – part of these funds usually affect farmers' accounts in January, but this time appeared earlier, which caused disturbances in the annual growth. Another factor that could have caused such an effect was inflow of funds to the brokerage accounts and mutual funds (in January it was about PLN0.5-1.0bn).

Total liabilities also decelerated, to 3.2% y/y from 4.5% y/y in December with companies liabilities growing by merely 1.6% y/y (vs 5.0% y/y in December) – slowest pace since 2013. To some extent this was the result of the FX effect, but even after the adjustment for this factor we see a deceleration (to 2.3% y/y from 3.9% y/y). We think this might have been due to weaker demand for the current loans as the sound liquidity situation does not support demand for this type of financing. More details on the money supply will be released later in the month.

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