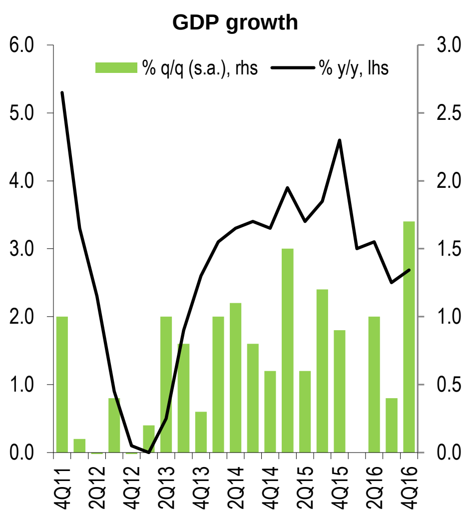
INSTANT COMMENT

28 February 2017

4Q16 GDP with no surprises

GDP growth accelerated to 2.7% y/y in 4Q16, in line with the flash reading. Seasonally adjusted GDP growth increased 1.7% q/q, which was the highest rise since 2007. We stick to our previous opinion that 4Q16 data do 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. Some recovery in investment (-5.8% y/y vs -7.7 in 3Q) is a positive factor. Supply-side data suggest it was driven mostly by construction, and further recovery in early 2017 in construction output suggest that investment was improving. On the other hand, rise in inventories was a really important growth driver, but such rises are temporary in nature. Private consumption is likely to remain the main driver of the economic growth in Poland this year. In general, we assume a gradual acceleration of economic growth throughout 2017. Data do not change monetary policy outlook.



GDP growth accelerated to 2.7% y/y in 4Q16, in line with the flash reading. Seasonally adjusted GDP growth increased 1.7% q/q, which was the highest rise since 2007.

Private consumption growth was at 4.2% y/y (the highest since 2008), being the main driver of economic growth. Consumption is fuelled by the very good labour market situation, payments of 500+ child benefits and earlier disbursement of payments for farmers. We expect consumption growth to remain similarly strong throughout 2017. Public consumption rose by 2.7% y/y, relatively low, but compared from high base from 4Q15. This 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 1.4 pp to growth). Meanwhile, investments did not show any positive surprise and kept falling at 5.8% y/y. Export rose by 8.6% y/y, import by 8.5% y/y, contributing in total 0.3pp to GDP growth.

On the supply side, value added in industry rose by a mere 2.7% y/y, but construction rebounded to -9.3% y/y from -16.5% y/y. Strong input to GDP growth was secured by transport (10.1% y/y, highest since 2011) and by trade, which was the strongest contributor to growth (+0.8pp with +5.8% y/y growth).

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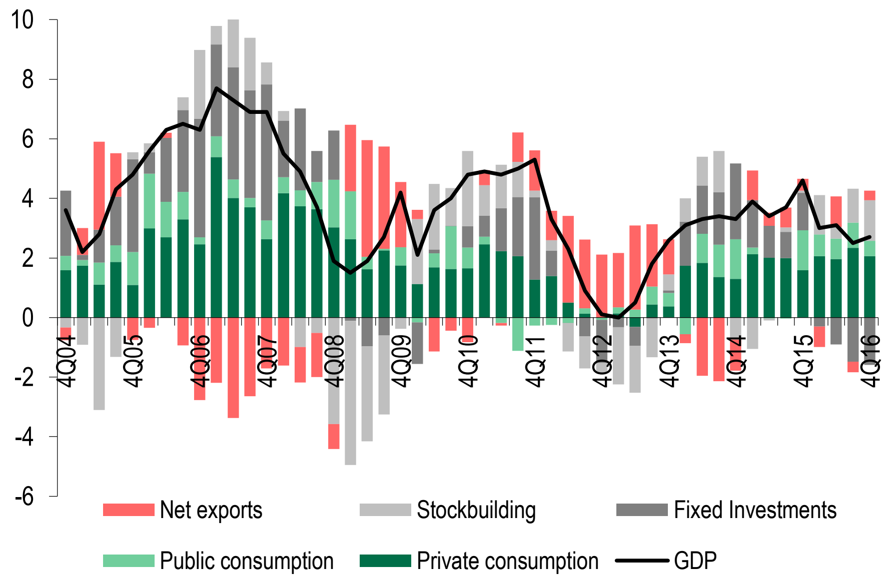
ECONOMIC ANALYSIS DEPARTMENT:
al. Jana Pawła II 17, 00-854, Warszawa fax +48 22 586 83 40
email: ekonomia@bzwbk.pl Web site: http://www.bzwbk.pl

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 breakdown, % y/y



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	4.2
Public consumption	4.9	3.5	4.0**	1.3	-0.2	-0.2	7.1	4.2	3.9	4.9	2.7
Gross accumulation	12.8	4.9	-0.3	3.9	5.5	5.3	4.7	7.6	-2.8	-1.7	-0.8
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	0.3

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

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854, Warsaw, Poland, phone +48 22 534 18 88, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.