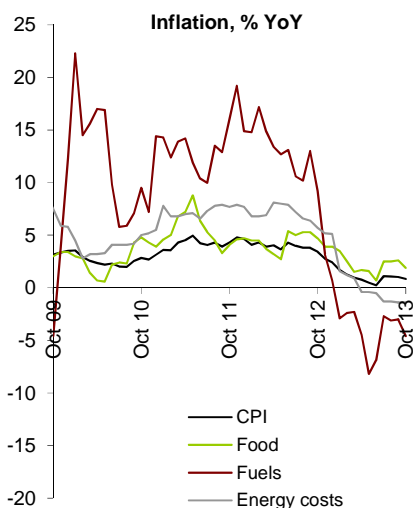


INSTANT COMMENT

14 November 2013

GDP higher, CPI lower

Pace of GDP growth accelerated to 1.9%YoY in Q3 (above expectations) and confirmed that economic revival gains steam. At the same time, inflation remains low – prices growth decelerated to 0.8%YoY in October. However, CPI inflation decline was mainly due to exceptionally low food prices, while remaining categories surprised to the upside. Thus, we think core CPI after excluding food and energy prices increased lightly (to 1.4%YoY). All in all, today's data do not change significantly our assessment of economic outlook and expectations regarding the monetary policy – GDP growth will accelerate gradually and inflation will increase slightly. Consequently, interest rates will remain stable until mid-2014, just like the MPC promised. However, in Q3-14 first rate hike is still possible.



Lower CPI inflation, but core CPI will moderately go up

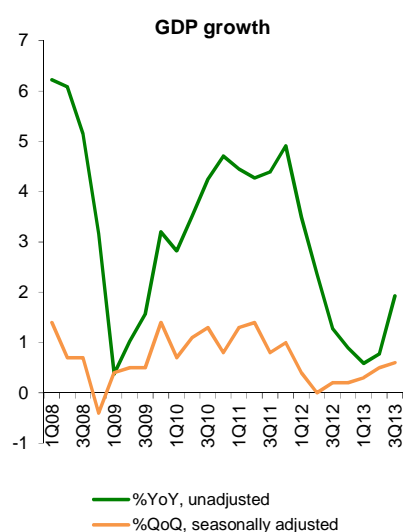
October's headline inflation declined to 0.8%YoY from 1.0%YoY in September. Market expected stabilization of prices growth, while we predicted gradual decline to 0.9%YoY. Main culprit of this surprise was food prices, which declined surprisingly by 0.1%MoM while usually we have a seasonal rebound in this category. According to the CSO, biggest declines were recorded in case of fresh fruits (-5%MoM), sugar (-1.2%) and meat (-1.0%). On the other hand, prices of clothing and footwear surprised to the upside (+3.5%MoM). In this case the direction of change was in line with seasonal pattern, but the scale of move was above expectations (perhaps this is another confirmation of that consumers' demand recovers). Third visible surprise was increase of telecommunications prices (+2.8%MoM) after providers of mobile network offered new tariffs (this is awkward, as we expected rather lower prices amid, among others, market rivalry and lower roaming prices in the EU). Fuel prices declined by 1.6%MoM, slight less than we expected after our monitoring of situation on stations.

All in all, apart from food prices, changes in other categories surprised rather to the upside. Consequently, we estimate that core CPI after excluding food and energy prices (it will be released on Friday) increased in October to 1.4%YoY from 1.3%YoY in September. Tomorrow's release of core inflation measures may thus weaken somewhat the dovish message from today's CPI data.

We sustain our forecast of gradual increase of inflation in coming months and the scale of this move should not endanger MPC's declaration of stable interest rates until mid-2014. However, in Q3-14 interest rates may go up if CPI remains on the upside (and above path presented in the recent NBP projection) and pace of GDP growth is close to 3% (amid rising domestic demand).

Pace of economic growth accelerates

According to flash data released today in the morning, GDP accelerated in Q3-13 to 1.9%YoY. It was not only above market consensus (1.6%YoY) but also slightly higher than our expectations (1.8%YoY). We do not know the details of the GDP structure (it will be released later this month – 29 November), but Maria Jeznach from the CSO suggested that positive impact on the headline figure was provided by private consumption and improvement in investments. This would confirm our expectations that faster GDP growth is not only due to strong exports, but also due to the revival of domestic demand. We expect GDP growth at c.2% in Q4 and 1.4%YoY in whole 2013. In 2014 this may be close to 3%.



ECONOMIC ANALYSIS DEPARTMENT:

ul. Marszałkowska 142. 00-061 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

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication. Additional information is available on request. Please contact Bank Zachodni WBK S.A. Rates Area, Economic Analysis Department, ul. Marszałkowska 142, 00-061 Warsaw, Poland, phone +48 22 534 18 88, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>.