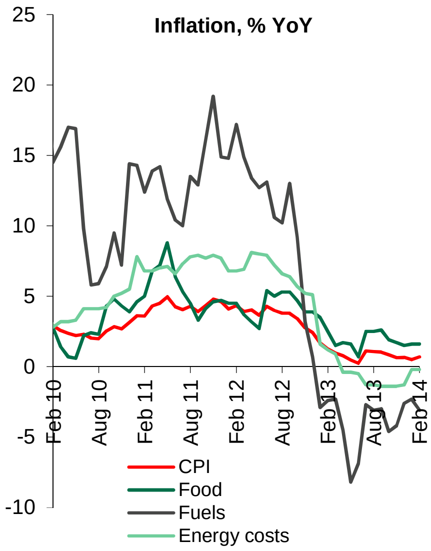
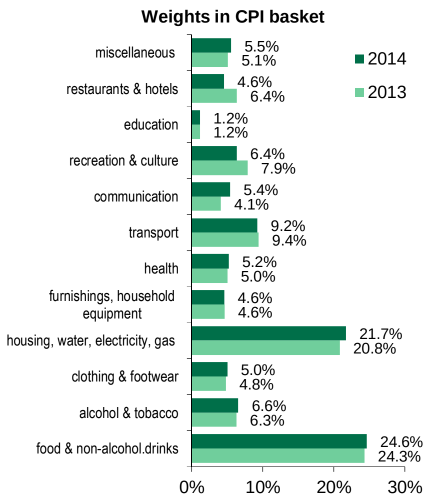
INSTANT COMMENT

14 March 2014

Inflation still low

February's inflation reached 0.7%YoY, below expectations, and flash data for January have been revised down by 0.2pp to 0.5%YoY due to changes of weights in the inflation basket. This release triggered a strengthening of bonds – yields declined by 2bp along the curve. In our opinion, the change of weights will have much smaller impact on the inflation at the end of the year than on the January's reading. At the same time, the pace of price growth will be subdued for the better part of the year allowing the MPC to keep interest rates unchanged until end-year. Money supply data has shown continuation of gradual revival of corporate loans.





CPI inflation again below forecasts

CPI inflation in February reached the level of 0.7%YoY and was slightly below expectations (median and our forecast at 0.8%). What is more, January's CPI reading was revised downwards to 0.5%YoY (from 0.7%YoY) due to annual changes of weights in CPI basket.

What is interesting, the basket reweighting itself was not in line with our expectations based on observation of relative prices in 2013. Share of spending on restaurants and hotels as well as on recreation and culture declined significantly, while share of spending on communication, housing and energy increased. Weight of food and beverages increased slightly. As a result, according to our flash estimates the basket reweighting may lower inflation at the year-end only slightly – by 0.02-0.03 percentage points (earlier we were expecting that this revision can increase December's CPI by ca. 0.04pp). Scale of revision of January data was more significant and amounted to -0.2pp, but later in the year there will be months, when correction of CPI path will be less considerable or even positive. As a result, impact of this factor on inflation rate at the year-end should be insignificant, in our view.

As regards details of price changes in February, they came as no surprise. We still see no signs of inflationary pressure. Nevertheless, our estimates still suggest that the trough of inflation is already behind us and CPI should be slowly climbing upwards in the upcoming months – yet it will most probably remain below 1.5% for the better part of the year and will approach 2% only at the end of the year.

We are estimating that core inflation excluding food and energy prices expanded by 0.5%YoY in January and by 0.9%YoY in February.

Pace of loan growth accelerates

Pace of growth of M3 money supply decelerated in February to 5.3%YoY from 5.4%YoY in January. Corporate and households' deposits advanced at slower pace, this was due to the FX effect to some extent, though. At the same time, pace of growth of liabilities accelerated to 4.7%YoY from 4.2%YoY, fastest growth since October 2012. The increase was recorded mainly in case of corporate sector and this suggests further improvement of the credit market.

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