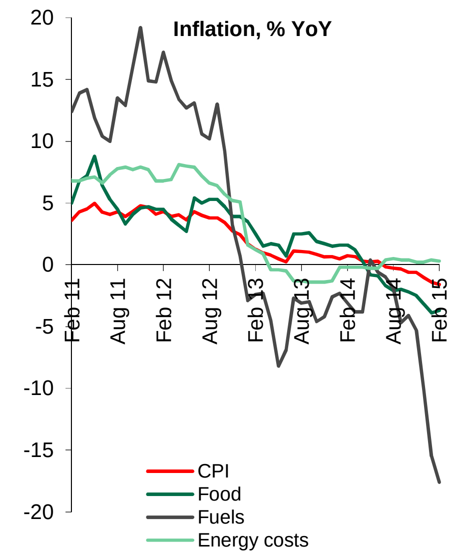
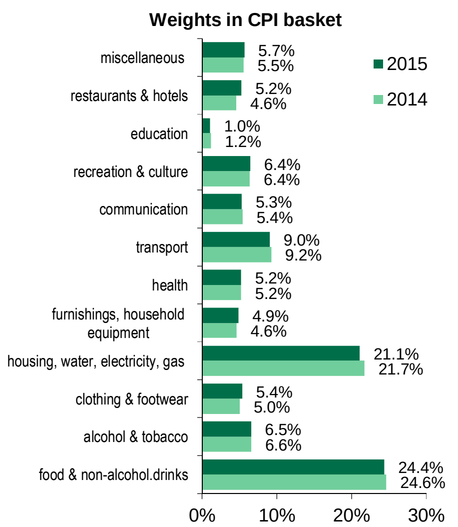
INSTANT COMMENT

13 March 2015

Inflation trough below expectations

CPI inflation declined in February to -1.6%YoY from -1.4%YoY after revision in January and was below all market forecasts, including our forecast, which was the lowest in Parkiet survey (-1.5%YoY). Annual inflation rate reached the lowest level in post-1989 history and deepening of deflation was mainly due to decline of prices in transport and due to base effects in tobacco and alcohol. The statistical office released new weights for the CPI basket. Net impact of basket reweighing on inflation path expected by us is however negligible. In our view, the February's reading established a trough of CPI inflation and from March on we will be observing a gradual increase of this indicator, to c0.6%YoY at the year-end (yet inflation will remain negative probably at least until the end of Q3). In our view, the data are neutral for the monetary policy outlook.





Inflation at the lowest level in history

CPI inflation declined in February to -1.6%YoY from -1.4%YoY after revision in January and was below all market forecasts, including our forecast, which was the lowest in Parkiet survey (-1.5%YoY). Annual inflation rate reached the lowest level in history after 1989 and deepening of deflation was mainly due to decline of prices in transport, which resulted from lower fuel prices, and due to base effects for tobacco and alcohol – this year there was no excise tax hike for these articles. According to our estimates, core inflation excluding food and energy prices amounted to 0.6%YoY in January and 0.4%YoY in February.

In monthly terms, consumer prices fell by 0.1%. Prices in most categories were more or less stable versus January, including food, which usually sees price increases in February. Declines were recorded in transport (-1.0%MoM, where fuel prices fell -2.2%MoM) and clothing/footwear (-1.9%MoM, which may have been due to end-of-season sell-offs). Prices of alcoholic beverages and tobacco products increased (by 0.6%MoM) even though there was no excise tax hike this year, but they went up less than one year ago, thus, as we wrote before the annual indicator for this category went actually up.

The statistical office released new weights for the CPI basket. Spending for restaurants and hotels, clothing and footwear as well as household appliances increased relatively to other products, while weights of housing, food and transport decreased. Net impact of basket reweighing on inflation path expected by us is however negligible.

In our view, the February's reading established a trough of CPI inflation and from March on we will be observing a gradual increase of this indicator, to c0.6%YoY at the year-end. We expect that rising consumer demand will be gradually translating into higher prices of consumer goods and services. As regards services, this effect is actually already visible – according to HICP data, services prices increased by c2%YoY. Prices of goods are still declining, but since mid-February we are observing a gradual rise in fuel prices, which were responsible for a considerable part of recent deepening of deflation.

Money supply grows faster

Pace of money supply growth accelerated in February to 8.8% YoY, in line with our forecast. This was the fastest growth since August 2012 driven, among others, by larger amount of cash is circulation (by 14.8% YoY) and deposits (by 8% YoY). Total loan growth decelerated slightly to 7.7% YoY from 8% YoY mainly on the back of slower growth of loans for households.

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

Exports to the euro zone accelerating

According to the stats office data, Poland recorded a noticeable trade surplus in January (€725mn). Although data indicate that pace of the overall exports growth decelerated at the beginning of the year, data for the particular EU countries, which are among the biggest receivers of Polish exports (Netherlands, Great Britain, Hungary) show that export growth continue to accelerate and for several others (Germany, Czech Rep.) remain at high two-digit level. High trade surplus is also the effect of the surprisingly low imports. However, it is worth to notice that large part of this effect may be explained by falling oil prices – the value of Poland's imports from Russia dropped in USD terms by nearly 50% YoY.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Rates Area, 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.