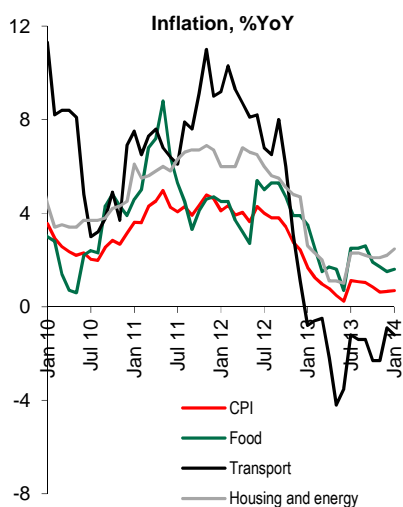


INSTANT COMMENT

14 February 2014

Economy accelerating, inflation still low

January's inflation reached 0.7%YoY, in line with our forecast and below market consensus. Meanwhile, GDP growth in Q4 2013 reached 2.7%, marginally lower than expected. Consequently, interest rate market has strengthened today. Pace of money supply growth decelerated in January to 5.5%YoY but the data suggests continuation of a gradual revival of loans and this should support an economic revival. Today's data seem to be neutral from the monetary policy point of view.



CPI still low

Inflation rate stayed unchanged in January, at 0.7%YoY, in line with our forecast and below market consensus (0.9%YoY). It is worth to remind that range of forecasts was quite wide (0.7%-1.2%). This was probably due to the uncertainty related to the pace at which administrative changes in prices implemented at the beginning of the year (higher excise duty for alcohol and tobacco, higher gas prices and lower energy prices) would be visible in CPI index as well as high uncertainty regarding changes of food prices. That is why today's release – below the majority of forecasts – triggered strengthening on the interest rate market, just like we expected.

When compared to December, prices rose mainly in case of food (1.4%MoM) and alcohol and tobacco (0.8%MoM). Also costs related to housing increased (0.2%MoM) due to, among others, higher prices of sewerage services, water, gas and heating. On the other hand, prices of waste management and electricity declined. Detail for not all components of CPI have been released as – just like each year – publication of January's data is preliminary and will be revised next month after including new weights in CPI index.

Based on today's data, we estimate that core inflation excluding food and energy prices amounted to 1.0%YoY in January, just like in December.

GDP growth shifting up a gear

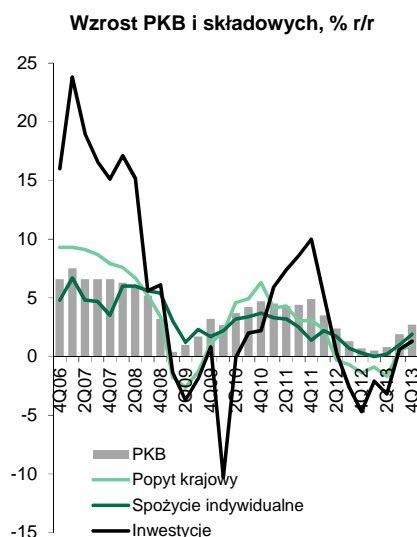
According to flash estimate, GDP growth in 4Q2013 amounted to 2.7%YoY, i.e. slightly lower than expected. Our estimates based on annual data (rise by 1.6% in 2013) suggested that GDP may have increased by 2.8%YoY in the final quarter of the year; market consensus was at a similar level. At the same time, the seasonally adjusted GDP growth in QoQ terms amounted to 0.5%, less than increase in Q3 (0.7%QoQ after upward revision).

Data do not change our general assessment of the situation. Even though the result was slightly weaker than expected, let us remind that it was a flash estimate, which can be revised. More detailed data on GDP in Q4, accounting also for its breakdown, will be available at the end of February. We are expecting them to show a recovery of domestic demand, with private consumption rising by almost 2%YoY and investment by over 1%YoY.

Flash GDP estimates for other CEE countries also confirmed a recovery of economic growth, mostly surprising to the upside. Especially marked improvement was posted by numbers on the Czech Republic and Romania, with seasonally-adjusted growth at 1.6%QoQ and 1.7%QoQ, respectively.

Acceleration of loan growth

In January 2014 the M3 money supply expanded by 5.5%YoY, down from 6.2%YoY in December, mainly due to decline in deposits of non-monetary financial institutions. Data showed an acceleration of total loans in the banking system to 4.3%YoY from 4.0%YoY in December, with households' loans accelerating to 5.4%YoY from 4.5%YoY and companies'



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loans to 3.4%YoY from 1.5%YoY. The acceleration was partially due to FX effects (weakening of the zloty), but it still suggesting an improvement on the credit market.

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